

Town of Pembroke, North Carolina

Financial Statements

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

Town of Pembroke, North Carolina

Financial Statements

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

Board of Town Commissioners

C. Gregory Cummings, Mayor

Channing Jones

Theresa Locklear

Larry McNeill

Ryan Sampson

*** * * * ***

Tyler Thomas, Town Manager

Marie Moore, Finance Officer

Town of Pembroke, North Carolina
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Financial Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs

N. C. Association of CPAs

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pembroke, 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. The financial statements of the Pembroke ABC Board and Pembroke Tourism Development Authority were not audited in accordance with Government Auditing Standards.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, the aggregate remaining fund information of the Town of Pembroke, 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 ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Other Postemployment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, 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, 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 Pembroke, North Carolina. The combining and individual fund statements, budgetary schedules, and other schedules, as well as the accompanying schedule of expenditures of federal and state awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and state awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and state awards 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 4, 2019 on our consideration of the Town of Pembroke'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 Pembroke's internal control over financial reporting and compliance.



Lumberton, North Carolina
November 4, 2019

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

Management's Discussion and Analysis

As management of the Town of Pembroke, North Carolina, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Pembroke for the fiscal year ending June 30, 2019.

Financial Highlights

The assets and deferred outflows of resources of the Town of Pembroke exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$19,298,750 (*net position*).

The government's total net position increased by \$1,429,019 during the year. The increase is primarily attributed to grant income and positive operating results.

As of the close of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$1,929,939.

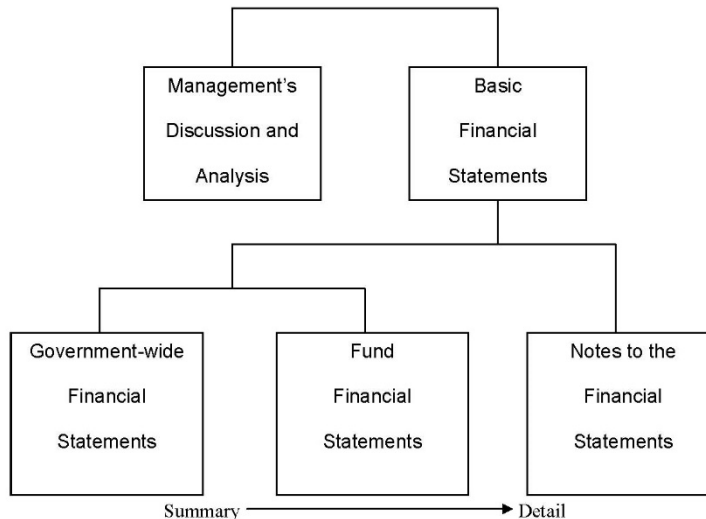
At the end of the current fiscal year, unassigned portion of fund balance for the general fund was \$1,362,590, or 40.96% of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Financial Statements

The first two statements 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 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.

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

There are three parts to the Fund Financial Statements: 1) the governmental funds statements, 2) the budgetary comparison statements, and 3) the proprietary fund statements.

The next section of the basic financial statements is the **Notes to the Financial Statements**. The notes explain in detail some of the data contained in those statements. After the notes, additional information is provided to show details about the Town's individual funds. Budgetary information required by the N.C. General Statutes can also be found in this part of the statements.

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

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

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the Town's basic services such as general government, public safety, highways/streets, sanitation, economic development, culture and recreation, and debt service. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. This includes the water and sewer services offered by the Town of Pembroke. The final category is the component units. Although legally separate from the Town, the ABC Board is important to the Town because the Town exercises control over the Board by appointing its members, and because the Board is required to distribute a portion of its profits to the Town. The other component unit is the Pembroke Tourism Development Authority. Again, the Town exercises control over the TDA by appointing its members and enforcing the collection of hotel occupancy taxes used to fund operations of same.

The government-wide financial statements can be found on pages 9 and 10 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 Pembroke, like other state and local governments, 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 can be divided into two categories, governmental funds and proprietary funds.

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

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

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

Basic Financial Statements (continued)

Governmental funds (continued). The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary funds. The Town of Pembroke maintains one type of proprietary fund called an Enterprise Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses the enterprise fund to account for its water and sewer activity.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund, which is considered a major fund of the Town.

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 can be found on pages 20-49 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 Pembroke's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 50 of this report.

Government-wide Financial Analysis

Town of Pembroke's Net Position

	Governmental		Business-type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Assets						
Current and other assets	\$ 2,093,170	\$ 1,826,828	\$ 2,814,895	\$ 2,480,726	\$ 4,908,065	\$ 4,307,554
Capital assets	6,218,968	6,267,374	14,402,897	13,670,736	20,621,865	19,938,110
Total assets	8,312,138	8,094,202	17,217,792	16,151,462	25,529,930	24,245,664
Deferred Outflows of Resources						
Total deferred outflows of resources	297,780	188,333	234,053	149,726	531,833	338,059
Liabilities						
Current liabilities	232,447	326,557	327,292	181,873	559,739	508,430
Long-term liabilities	3,689,103	3,755,905	2,168,432	2,206,518	5,857,535	5,962,423
Total liabilities	3,921,550	4,082,462	2,495,724	2,388,391	6,417,274	6,470,853
Deferred Inflows of Resources						
Total deferred inflows of resources	193,227	131,475	152,512	111,664	345,739	243,139
Net position						
Net investment in capital assets	4,043,314	3,881,350	13,476,399	12,639,288	17,519,713	16,520,638
Restricted	417,349	362,592	-	-	417,349	362,592
Unrestricted	34,478	(175,344)	1,327,210	1,161,845	1,361,688	986,501
Total net position	\$ 4,495,141	\$ 4,068,598	\$ 14,803,609	\$ 13,801,133	\$ 19,298,750	\$ 17,869,731

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

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of resources of the Town exceeded liabilities and deferred inflows of resources by \$19,298,750 at close of the current fiscal year. By far the largest portion of the Town's net position (90.78%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure) less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted portion of net position represents the Town's resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$1,361,688, or 7.06% of the total.

Town of Pembroke's Changes in Net Position

	Governmental		Business-type		Total	
	Activities		Activities			
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues						
Charges for services	\$ 609,835	\$ 611,064	\$ 3,022,075	\$ 2,925,405	\$ 3,631,910	\$ 3,536,469
Grants and contributions	254,949	145,032	927,112	392,283	1,182,061	537,315
General revenues						
Property taxes	1,227,566	1,202,142	-	-	1,227,566	1,202,142
Other taxes/licenses	863,870	787,967	-	-	863,870	787,967
Other revenues	346,101	319,941	-	-	346,101	319,941
Unrestricted revenues	347,106	224,984	-	-	347,106	224,984
Interest income	17,919	5,489	26,786	9,167	44,705	14,656
Total revenues	3,667,346	3,296,619	3,975,973	3,326,855	7,643,319	6,623,474
Expenses:						
General government	657,288	743,916	-	-	657,288	743,916
Public safety	1,306,398	1,254,091	-	-	1,306,398	1,254,091
Transportation	224,548	251,716	-	-	224,548	251,716
Environmental prot	458,456	475,803	-	-	458,456	475,803
Economic develop	-	11,792	-	-	-	11,792
Cultural and rec	522,266	430,091	-	-	522,266	430,091
Interest on debt	71,847	77,483	-	-	71,847	77,483
Water and sewer	-	-	2,973,497	2,763,776	2,973,497	2,763,776
Total expenses	3,240,803	3,244,892	2,973,497	2,763,776	6,214,300	6,008,668
Increase (decrease) in net position	426,543	51,727	1,002,476	563,079	1,429,019	614,806
Net position – beginning of Year	4,068,598	4,634,394	13,801,133	14,246,274	17,869,731	18,880,668
Restatement	-	(617,523)	-	(1,008,220)	-	(1,625,743)
Net position – beginning of Year	4,068,598	4,016,871	13,801,133	13,238,054	17,869,731	17,254,925
Net position – ending of Year	\$ 4,495,141	\$ 4,068,598	\$14,803,609	\$13,801,133	\$19,298,750	\$17,869,731

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

Governmental activities. Governmental activities increased the Town of Pembroke's net position by \$426,543.

Property taxes continue to be the largest revenue consistent contributor with 33.47% of the total governmental activities revenues. Other taxes/licenses were the next largest at 23.56%.

Capital and operating grants for governmental activities furnished resources to support the six functions of the Town: general government, public safety, transportation, environmental protection, economic and physical development, and cultural and recreation.

Business-type activities. Business-type activities increased the Town's net position by \$1,002,476. Key elements of this increase are as follows: commercial and community growth and governmental assistance.

Financial Analysis of the Government's Funds

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

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

At the end of the current fiscal year, the Town's governmental funds reported a combined fund balance of \$1,929,939. Of this total amount, \$1,362,590 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that funds are not available for spending because these funds have already been committed as follows: 1) to liquidate contracts and purchase orders from the prior year, or 2) for a variety of other restricted purposes.

The general fund is the chief operating fund of the Town of Pembroke. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,501,826, while total fund balance reached \$1,908,186. The Governing Body of the Town of Pembroke has determined that the Town should maintain an available fund balance of 20% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 45.16% of General Fund expenditures.

Proprietary Funds. The Town of Pembroke's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,327,210 for the Water and Sewer Fund. Other factors concerning this fund have been discussed in the Town's business-type activities.

General Fund Budgetary Highlights

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

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

Capital Assets and Debt Administration

The Town of Pembroke's investment in capital assets for its governmental and business-type activities as of June 30, 2019 totals \$20,621,865 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, furniture and equipment, infrastructure (including distribution systems), and vehicles.

Town of Pembroke's Capital Assets
(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 608,500	\$ 608,500	\$ 140,972	\$ 140,972	\$ 749,472	\$ 749,472
Buildings & infrastructure	4,806,952	4,965,303	-	-	4,806,952	4,965,303
Equipment	803,516	693,571	-	-	803,516	693,571
Water & Sewer infrastructure	-	-	14,261,925	13,529,764	14,261,925	13,529,764
Totals	\$ 6,218,968	\$ 6,267,374	\$ 14,402,897	\$ 13,670,736	\$20,621,865	\$19,938,110

Additional information on the Town's capital assets can be found in the notes on pages 29 and 30 of this report.

Long-term debt. At the end of the current fiscal year, the Town of Pembroke had total debt outstanding of \$6,165,677.

Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Capital leases	\$ -	\$ 21,004	\$ -	\$ -	\$ -	\$ 21,004
Installment debt	2,175,654	2,365,020	-	-	2,175,654	2,365,020
Compensated absences	50,174	50,174	77,292	77,292	127,466	127,466
Pension related debt (LERS)	362,079	226,952	296,246	197,755	658,325	424,707
Pension related debt (LEO)	267,571	275,321	-	-	267,571	275,321
OPEB liability	1,024,978	1,027,804	985,185	987,497	2,010,163	2,015,301
General obligation bonds	-	-	926,498	1,031,448	926,498	1,031,448
Totals	\$ 3,880,456	\$ 3,966,275	\$ 2,285,221	\$ 2,293,992	\$ 6,165,677	\$ 6,260,267

North Carolina's general statutes limit the amount of general obligation debt that a governmental unit can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Pembroke is presently at \$12,523,585.

Additional information pertaining to the Town of Pembroke's long-term debt begins on page 43 of this report.

Economic Factors and Next Year's Budgets and Rates

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

Request for Information

This financial report is designed to provide a general overview of the Town of Pembroke's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, Post Office Box 866, Pembroke, North Carolina 28372.

Basic Financial Statements

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

	<u>Primary Government</u>			Pembroke Tourism Development Authority	Pembroke Board of Alcohol Control
	Governmental Activities	Business - Type Activities	Total		
<u>ASSETS</u>					
Current assets:					
Cash and cash equivalents	\$ 1,540,687	\$ 2,486,039	\$ 4,026,726	\$ 26,964	\$ 316,701
Taxes receivable, net	122,137	-	122,137	-	-
Accounts receivable, net	60,053	123,403	183,456	-	-
Accounts receivable - other	182,680	124,271	306,951	11,310	-
Due from other governments	152,233	-	152,233	-	-
Inventories	12,997	81,182	94,179	-	110,652
Prepaid items	-	-	-	-	4,898
Restricted cash and cash equivalents	22,383	-	22,383	-	-
Total current assets	2,093,170	2,814,895	4,908,065	38,274	432,251
Non-current assets:					
Capital assets (Note 3):					
Land	608,500	140,972	749,472	-	7,500
Other capital assets, net of depreciation	5,610,468	14,261,925	19,872,393	-	112,315
Total capital assets	6,218,968	14,402,897	20,621,865	-	119,815
Total assets	8,312,138	17,217,792	25,529,930	38,274	552,066
<u>DEFERRED OUTFLOWS OF RESOURCES</u>					
Pension deferrals	287,170	224,278	511,448	-	-
OPEB deferrals	10,610	9,775	20,385	-	-
Total deferred outflows of resources	297,780	234,053	531,833	-	-
<u>LIABILITIES</u>					
Current liabilities:					
Accounts payable and accrued expenses	37,794	167,089	204,883	-	87,710
Current portion of long-term debt	191,353	116,789	308,142	-	18,006
Deposits	3,300	43,414	46,714	-	-
Total current liabilities	232,447	327,292	559,739	-	105,716
Long-term liabilities:					
Net pension liability	362,079	296,246	658,325	-	-
Total pension liability	267,571	-	267,571	-	-
Total OPEB liability	1,024,978	985,185	2,010,163	-	-
Due in more than one year	2,034,475	887,001	2,921,476	-	75,361
Total liabilities	3,921,550	2,495,724	6,417,274	-	181,077
<u>DEFERRED INFLOWS OF RESOURCES</u>					
Pension deferrals	40,787	12,933	53,720	-	-
OPEB deferrals	152,440	139,579	292,019	-	-
Total deferred inflows of resources	193,227	152,512	345,739	-	-
<u>NET POSITION</u>					
Net investment in capital assets	4,043,314	13,476,399	17,519,713	-	26,448
Restricted for:					
Stabilization by State Statute	394,966	-	394,966	-	-
Other functions	22,383	-	22,383	11,310	39,778
Unrestricted	34,478	1,327,210	1,361,688	26,964	304,763
Total net position	\$ 4,495,141	\$ 14,803,609	\$ 19,298,750	\$ 38,274	\$ 370,989

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

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

<u>Functions/Programs</u>	<u>Program Revenues</u>				<u>Net (Expense) Revenue and Changes in Net Position</u>				
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>			<u>Pembroke Tourism Development Authority</u>	<u>Pembroke Board of Alcohol Control</u>
					<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>		
Primary government									
Governmental activities:									
General government	\$ 657,288	\$ 3,795	\$ -	\$ 161,645	\$ (491,848)	\$ -	\$ (491,848)	\$ -	\$ -
Public safety	1,306,398	45,281	-	-	(1,261,117)	-	(1,261,117)	-	-
Transportation	224,548	-	-	93,304	(131,244)	-	(131,244)	-	-
Environmental protection	458,456	560,759	-	-	102,303	-	102,303	-	-
Economic and physical development	-	-	-	-	-	-	-	-	-
Cultural and recreational	522,266	-	-	-	(522,266)	-	(522,266)	-	-
Interest on long-term debt	71,847	-	-	-	(71,847)	-	(71,847)	-	-
Total governmental activities	<u>3,240,803</u>	<u>609,835</u>	<u>-</u>	<u>254,949</u>	<u>(2,376,019)</u>	<u>-</u>	<u>(2,376,019)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Water and sewer	2,973,497	3,022,075	927,112	-	-	975,690	975,690	-	-
Total business-type activities	<u>2,973,497</u>	<u>3,022,075</u>	<u>927,112</u>	<u>-</u>	<u>-</u>	<u>975,690</u>	<u>975,690</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 6,214,300</u>	<u>\$ 3,631,910</u>	<u>\$ 927,112</u>	<u>\$ 254,949</u>	<u>(2,376,019)</u>	<u>975,690</u>	<u>(1,400,329)</u>	<u>-</u>	<u>-</u>
Component units:									
Pembroke Tourism Development Authority	\$ 47,503	\$ 46,895	\$ -	\$ -	-	-	-	(608)	-
Pembroke Board of Alcohol Control	1,005,538	1,034,520	-	-	-	-	-	-	28,982
Total component unit	<u>\$ 1,053,041</u>	<u>\$ 1,081,415</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(608)</u>	<u>28,982</u>
General revenues:									
Ad Valorem taxes					1,227,566	-	1,227,566	-	-
Other taxes and licenses					863,870	-	863,870	-	-
Unrestricted intergovernmental revenues					347,106	-	347,106	-	-
Miscellaneous					346,101	-	346,101	-	-
Unrestricted investment earnings					17,919	26,786	44,705	-	-
Total general revenues and transfers					<u>2,802,562</u>	<u>26,786</u>	<u>2,829,348</u>	<u>-</u>	<u>-</u>
Change in net position					<u>426,543</u>	<u>1,002,476</u>	<u>1,429,019</u>	<u>(608)</u>	<u>28,982</u>
Net position, beginning					<u>4,068,598</u>	<u>13,801,133</u>	<u>17,869,731</u>	<u>38,882</u>	<u>342,007</u>
Net position, ending					<u>\$ 4,495,141</u>	<u>\$ 14,803,609</u>	<u>\$ 19,298,750</u>	<u>\$ 38,274</u>	<u>\$ 370,989</u>

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

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

	<u>Major Fund</u>	<u>Non-Major</u>	<u>Total</u>
	<u>General</u>	<u>Funds</u>	<u>Governmental</u>
			<u>Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,540,687	\$ -	\$ 1,540,687
Restricted cash and cash equivalents	630	21,753	22,383
Taxes receivable, net	122,137	-	122,137
Accounts receivable, net	60,053	-	60,053
Accounts receivable - other	182,680	-	182,680
Due from other governments	152,233	-	152,233
Inventories	12,997	-	12,997
Total assets	<u>2,071,417</u>	<u>21,753</u>	<u>2,093,170</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	37,794	-	37,794
Deposits	3,300	-	3,300
Total liabilities	<u>41,094</u>	<u>-</u>	<u>41,094</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Property taxes receivable	122,137	-	122,137
Total deferred inflows of resources	<u>122,137</u>	<u>-</u>	<u>122,137</u>
<u>FUND BALANCES</u>			
Restricted			
Stabilization by State Statute	394,966	-	394,966
Streets	630	-	630
Economic development	-	21,753	21,753
Assigned			
Subsequent year's expenditures	150,000	-	150,000
Unassigned	1,362,590	-	1,362,590
Total fund balances	<u>1,908,186</u>	<u>21,753</u>	<u>1,929,939</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,071,417</u>	<u>\$ 21,753</u>	

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

Town of Pembroke, North Carolina
Balance Sheet (continued)
Governmental Funds
June 30, 2019

Amounts reported for governmental activities in the Statement of Net Position (Page 9) are different because:

Total Fund Balance, Governmental Funds		\$ 1,929,939
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		
Gross capital assets at historical cost	\$ 10,192,684	
Accumulated depreciation	<u>(3,973,716)</u>	6,218,968
Deferred outflows of resources related to pensions are not reported in the funds		
		287,170
Deferred outflows of resources related to OPEB are not reported in the funds		
		10,610
Earned revenues considered deferred inflows of resources in fund statements		
		122,137
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds		
Gross long-term debt	\$ (2,436,198)	
Long-term debt included as net position below (includes the additions of long-term debt and principal payments during the year)	210,370	
Net pension liability	(362,079)	
Total pension liability	(267,571)	
OPEB liability	<u>(1,024,978)</u>	(3,880,456)
Deferred inflows of resources related to pensions are not reported in the funds		
		(40,787)
Deferred inflows of resources related to OPEB are not reported in the funds		
		<u>(152,440)</u>
Net position of governmental activities		<u>\$ 4,495,141</u>

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

Town of Pembroke, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
June 30, 2019

	<u>Major Fund</u>	<u>Non-Major</u>	<u>Total</u>
	<u>General</u>	<u>Funds</u>	<u>Governmental</u>
			<u>Funds</u>
Revenues:			
Ad valorem taxes	\$ 1,259,961	\$ -	\$ 1,259,961
Other taxes and licenses	863,870	-	863,870
Unrestricted intergovernmental	347,106	-	347,106
Restricted intergovernmental	304,025	-	304,025
Sales and services	560,759	-	560,759
Investment earnings	17,919	-	17,919
Miscellaneous	346,101	-	346,101
Total revenues	<u>3,699,741</u>	<u>-</u>	<u>3,699,741</u>
Expenditures:			
General government	441,241	-	441,241
Public safety	1,435,799	-	1,435,799
Transportation	233,858	-	233,858
Environmental protection	458,456	-	458,456
Economic and physical development	-	-	-
Cultural and recreational	474,340	-	474,340
Debt service:			
Principal retirements	210,370	-	210,370
Interest and other charges	71,847	-	71,847
Total expenditures	<u>3,325,911</u>	<u>-</u>	<u>3,325,911</u>
Revenues over (under) expenditures	<u>373,830</u>	<u>-</u>	<u>373,830</u>
Other financing sources (uses)			
Loan proceeds	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	373,830	-	373,830
Fund balances, beginning	<u>1,534,356</u>	<u>21,753</u>	<u>1,556,109</u>
Fund balances, ending	<u>\$ 1,908,186</u>	<u>\$ 21,753</u>	<u>\$ 1,929,939</u>

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

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

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

Net changes in fund balances - total governmental funds		\$ 373,830
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and is reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period</p>		
Capital outlay expenditures which were capitalized	\$ 174,432	
Depreciation expense for governmental assets	<u>(222,838)</u>	(48,406)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		71,534
Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities		18,311
OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities		26,884
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:</p>		
Change in unavailable revenue for tax revenues		(32,395)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has an effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
New long-term debt issued	-	
Principal payments on long-term debt	<u>210,370</u>	210,370
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Pension expense	(124,197)	
OPEB plan expense	<u>(69,388)</u>	<u>(193,585)</u>
Total changes in net position of governmental activities		<u><u>\$ 426,543</u></u>

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

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

	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Variance with Final Budget - Positive (Negative)</u>
Revenues:				
Ad valorem taxes	\$ 1,189,300	\$ 1,264,453	\$ 1,259,961	\$ (4,492)
Other taxes and licenses	745,000	853,235	863,870	10,635
Unrestricted intergovernmental	321,000	327,380	347,106	19,726
Restricted intergovernmental	165,000	283,024	304,025	21,001
Sales and services	540,000	560,759	560,759	-
Investment earnings	12,000	17,919	17,919	-
Miscellaneous	275,110	392,969	346,101	(46,868)
Total revenues	<u>3,247,410</u>	<u>3,699,739</u>	<u>3,699,741</u>	<u>2</u>
Expenditures:				
General government	466,525	441,242	441,241	1
Public safety	1,487,450	1,435,799	1,435,799	-
Transportation	227,400	233,858	233,858	-
Environmental protection	500,000	458,456	458,456	-
Cultural and recreational	408,900	474,341	474,340	1
Contingency	30,896	373,804		373,804
Debt service :				
Principal retirement	210,370	210,370	210,370	-
Interest and other charges	70,869	71,869	71,847	22
Total expenditures	<u>3,402,410</u>	<u>3,699,739</u>	<u>3,325,911</u>	<u>373,828</u>
Revenues over (under) expenditures	<u>(155,000)</u>	<u>-</u>	<u>373,830</u>	<u>373,830</u>
Other financing sources (uses)				
Loan proceeds	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance appropriated	<u>155,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>373,830</u>	<u>\$ 373,830</u>
Fund balance, beginning			<u>1,534,356</u>	
Fund balance, ending			<u>\$ 1,908,186</u>	

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

Town of Pembroke, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2019

	<u>Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
<u>ASSETS</u>		
Current assets:		
Cash and cash equivalents	\$ 2,486,039	\$ 2,486,039
Accounts receivable - net	123,403	123,403
Accounts receivable - NC Dept of Commerce	124,271	124,271
Inventories	81,182	81,182
Total current assets	<u>2,814,895</u>	<u>2,814,895</u>
Noncurrent assets:		
Capital assets:		
Land	140,972	140,972
Other capital assets, net of depreciation	14,261,925	14,261,925
Total noncurrent assets	<u>14,402,897</u>	<u>14,402,897</u>
Total assets	<u>17,217,792</u>	<u>17,217,792</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>		
Pension deferrals	224,278	224,278
OPEB deferrals	9,775	9,775
Total deferred outflows of resources	<u>234,053</u>	<u>234,053</u>
<u>LIABILITIES</u>		
Current liabilities:		
Accounts payable and accrued expenses	167,089	167,089
Current portion of long-term debt	116,789	116,789
Deposits	43,414	43,414
Total current liabilities	<u>327,292</u>	<u>327,292</u>
Noncurrent liabilities:		
Compensated absences	77,292	77,292
Noncurrent portion of long-term debt	809,709	809,709
Net pension liability	296,246	296,246
Total OPEB liability	985,185	985,185
Total noncurrent liabilities	<u>2,168,432</u>	<u>2,168,432</u>
Total liabilities	<u>2,495,724</u>	<u>2,495,724</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Pension deferrals	12,933	12,933
OPEB deferrals	139,579	139,579
Total deferred inflows of resources	<u>152,512</u>	<u>152,512</u>
<u>NET POSITION</u>		
Net investment in capital assets	13,476,399	13,476,399
Unrestricted	1,327,210	1,327,210
Total net position	<u>\$ 14,803,609</u>	<u>\$ 14,803,609</u>

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

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

	<u>Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
Operating revenues		
Charges for services	\$ 3,022,075	\$ 3,022,075
Other operating revenues	-	-
Total operating revenues	<u>3,022,075</u>	<u>3,022,075</u>
Operating expenses		
Administration	659,704	659,704
Water department	618,627	618,627
Sewer department	1,161,931	1,161,931
Depreciation	483,379	483,379
Total operating expenses	<u>2,923,641</u>	<u>2,923,641</u>
Operating income (loss)	<u>98,434</u>	<u>98,434</u>
Nonoperating revenues (expenses)		
Investment income	26,786	26,786
Interest and other charges	(49,856)	(49,856)
Total nonoperating revenues (expenses)	<u>(23,070)</u>	<u>(23,070)</u>
Income (loss) before contributions and transfers	<u>75,364</u>	<u>75,364</u>
Contributions and transfers		
Capital contributions and grants	927,112	927,112
Transfer from other funds	-	-
Total contributions and transfers	<u>927,112</u>	<u>927,112</u>
Change in net position	1,002,476	1,002,476
Net position, beginning	13,801,133	13,801,133
Net position, ending	<u>\$ 14,803,609</u>	<u>\$ 14,803,609</u>

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

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

	<u>Enterprise Fund</u>	
	<u>Water and Sewer Fund</u>	<u>Total</u>
Cash flows from operating activities		
Cash received from customers	\$ 3,022,075	\$ 3,022,075
Cash payments for personal services	(1,142,588)	(1,142,588)
Cash payments for goods and services	(843,059)	(843,059)
Increase (decrease) in customer deposits	4,478	4,478
Net cash provided (used) by operating activities	<u>1,040,906</u>	<u>1,040,906</u>
Cash flows from non-capital financing activities		
Increase in due to (from) other funds	-	-
Transfers from (to) other funds	-	-
Net cash provided (used) by non-capital financing activities	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities		
Capital contributions and grants	927,112	927,112
Capitalized interest as result of loan refinance	20,875	20,875
Principal paid on bonds and other loans	(125,825)	(125,825)
Interest paid on bonds and other loans	(49,856)	(49,856)
Acquisition and construction of capital assets	(1,215,540)	(1,215,540)
Net cash provided (used) by capital and related financing activities	<u>(443,234)</u>	<u>(443,234)</u>
Cash flows from investing activities		
Interest from investments	26,786	26,786
Net increase (decrease) in cash and cash equivalents	624,458	624,458
Cash and cash equivalents - beginning of year	<u>1,861,581</u>	<u>1,861,581</u>
Cash and cash equivalents - end of year	<u>\$ 2,486,039</u>	<u>\$ 2,486,039</u>

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

Town of Pembroke, North Carolina
Statement of Cash Flows (continued)
Proprietary Fund
For the Year Ended June 30, 2019

	Enterprise Fund	
	Water and Sewer Fund	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:		
Operating income (loss)	\$ 98,434	\$ 98,434
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	483,379	483,379
(Increase) decrease in accounts receivable	284,114	284,114
(Increase) decrease in inventories	6,175	6,175
Decrease in deferred outflows of resources - pensions	(81,924)	(81,924)
Increase in deferred outflows of resources - OPEB	(2,403)	(2,403)
(Decrease) in net pension liability	98,491	98,491
Increase in total pension liability - OPEB	(2,312)	(2,312)
(Decrease) in deferred inflows of resources - pension	1,356	1,356
Increase in deferred inflows of resources - OPEB	39,492	39,492
Increase (decrease) in accounts payable and accrued liabilities	111,626	111,626
Increase (decrease) in customer deposits	4,478	4,478
Net cash provided (used) by operating activities	\$ 1,040,906	\$ 1,040,906

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

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

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Town of Pembroke, North Carolina, (the “Town”) and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of Pembroke is a municipal corporation that is governed by an elected mayor and a four-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component units, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

Component Units

In conformity with generally accepted accounting principles, the financial statements of the component unit have been included in the financial statements as discretely presented component units.

Discretely Presented Component Units

The Town appoints the members of the ABC Board's governing board. The Pembroke ABC Board's equity is owned jointly between the Town of Pembroke and Robeson County, with the Town owning sixty-five percent and the County owning thirty-five percent. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town and Robeson County. The ABC Board complies with this requirement by distributing its surpluses to the Town of Pembroke and Robeson County pro-rata, based on their equity percentages. The ABC Board, which has a June 30 year-end, is presented as if it were a Proprietary Fund. Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Pembroke ABC Board, 100 North Vance Street, Pembroke, North Carolina 28372.

On July the 9th, 2010, the North Carolina legislature authorized the creation of the Pembroke Tourism Development Authority. The Pembroke Town council appoints members of the Authority Board and assesses and collects occupancy taxes from local hotels and remits a portion of the money to the Authority. This practice was initiated during the second calendar quarter of 2011. The Authority, at this time, has no employees, capital assets, or indebtedness. No income taxes were considered as the Board formally applied for and received tax exempt status under Section 501(c)(6) of the Internal Revenue Code on June 13, 2012.

B. Basis of Presentation

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

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

B. Basis of Presentation (continued)

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 and investment earnings, result from non-exchange transactions or ancillary activities.

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, and sanitation services.

The Town reports the following non-major governmental funds:

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. The Town has one Special Revenue Fund, the Community Development Fund.

The Town reports the following major enterprise fund:

Water and Sewer Fund – The Water and Sewer Fund is used to account for the activity related to the provision of water and sanitary sewer services to the Town's customers.

For financial reporting purposes, a Water and Sewer Capital Project Fund has been consolidated with the enterprise operating fund.

C. Measurement Focus and Basis of Accounting

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

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus and Basis of Accounting (continued)

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

The Town considers all revenues available if they are collected within 60 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 utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Pembroke because the tax is levied by Robeson County and then remitted to and distributed to the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Special Revenue Fund and the Capital Projects Fund, which are consolidated with the operating funds 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 at the object level for the multi-year funds. The Town Manager is authorized to transfer appropriations within a fund up to \$2,500; however, any revisions that alter total expenditures of any fund or exceed \$2,500 must be approved by the governing body. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

Deposits and Investments

All deposits of the Town and of the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town and the ABC Board 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 and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's and ABC Board's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT-Term Portfolio 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.

In accordance with State law, the Town has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash and cash equivalents.

Restricted Assets

Money in the Economic Development Fund is classified as restricted assets because its use is restricted to the Economic Development Fund per NC G.S. Chapter 159, Article 3, Part 2. Powell bill funds are also 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.

Town of Pembroke Restricted Cash:

At June 30, 2019, restricted cash for Governmental Activities totaled \$22,383. Of that amount \$630 is related to Streets and \$21,753 is related to Economic Development.

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

Ad Valorem Taxes Receivable

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

Allowance 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 and Prepaid Items

The inventories of the Town and the ABC Board are valued at cost (first-in, first-out), which approximates market. The inventories of the Town's Enterprise Fund and those of the ABC Board consist of materials and supplies held for consumption. The cost of these inventories is recorded as an expense as the inventories are consumed.

The inventories of the Town's enterprise funds and those of the Town of Pembroke ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

Capital Assets

The government defines capital assets 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, \$5,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$100,000; furniture and equipment, \$5,000; and vehicles, \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2002, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset is not capitalized.

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

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

General and Enterprise Funds:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	25 years
Buildings	50-67 years
Improvements	25 years
Vehicles	6 years
Furniture and fixtures	6-10 years
Equipment	6-35 years
Computer equipment	3 years

Discretely presented component unit:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50-67 years
Land improvements	20 years
Furniture and fixtures	6-10 years
Equipment	6-35 years

Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, pension deferrals for the 2018 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 two items that meet this criterion, property taxes receivable, and pension 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

Compensated Absences

The vacation policies of the Town and the ABC Board provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town, the current portion of the accumulated vacation pay is not considered to be material; therefore, no expenditure or liability has been reported in the governmental funds.

Both the Town and the ABC Board's sick leave policies provide 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 neither the Town nor the ABC Board has 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 in government-wide and proprietary fund financial statements are classified as invested in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

In the governmental fund financial statements, fund balance is composed of four 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:

Non-spendable 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.

Inventories – portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

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

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

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

Restricted for Economic Development –portion of Fund Balance restricted for economic development.

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

Note 1 - Summary of Significant Accounting Policies (continued)

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

Net Position / Fund Balances (continued)

Assigned fund balance – portion of fund balance that the Town of Pembroke intends to use for specific purposes.

Subsequent year's expenditures – portion of the total fund balance available for appropriation that has been designated for the adopted in next year's budget.

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

The Town of Pembroke 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 asset, 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 Pembroke's employer contributions are recognized when due and the Town of Pembroke has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

Note 2 – Stewardship, Compliance, and Accountability

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

1. Noncompliance with North Carolina General Statutes

None noted.

2. Contractual Violations

None noted.

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

None noted.

C. Excess of Expenditures over Appropriations

None Noted.

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

Note 3 - Detail Notes on All Funds

A. Assets

Deposits

All the deposits of the Town and the ABC Board 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 or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board'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 or the ABC Board under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

At June 30, 2019, the Town's deposits had a carrying amount of \$4,049,109 cash and a bank balance of \$4,392,216. Of the bank balance \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. The carrying amount of deposits for the Tourism Development Authority was \$29,964 and the bank balance was \$38,601. All of that bank balance was covered by federal depository insurance. The carrying amount of deposits for the Pembroke ABC Board was \$316,701 and the bank balance was \$361,810. All of that bank balance was covered by federal depository insurance.

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

Note 3 - Detail Notes on All Funds (continued)

A. Assets (continued)

Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 608,500	\$ -	\$ -	\$ 608,500
Capital assets being depreciated:				
Fire station (1/2 interest)	44,182	-	-	44,182
Recreation complex	3,972,357	-	-	3,972,357
Municipal complex	1,730,168	-	-	1,730,168
Equipment and improvements	539,247	9,310	-	548,557
Public works	189,409	-	-	189,409
Public buildings and grounds	936,790	-	-	936,790
Old town hall	131,047	-	-	131,047
Fire-fighting equipment	615,599	30,395	-	645,994
Police equipment	1,064,613	107,427	-	1,172,040
Recreation equipment	58,367	27,300	-	85,667
Infrastructure	127,973	-	-	127,973
Total capital assets being depreciated	<u>9,409,752</u>	<u>174,432</u>	<u>-</u>	<u>9,584,184</u>
Less – accumulated depreciation for:				
Fire station (1/2 interest)	35,352	884	-	36,236
Recreation complex	814,951	79,447	-	894,398
Municipal complex	682,313	51,383	-	733,696
Equipment and improvements	277,366	1,000	-	278,366
Public buildings and grounds	304,417	10,888	-	315,305
Old town hall	131,047	-	-	131,047
Fire-fighting equipment	440,620	30,667	-	471,287
Police equipment	823,685	31,153	-	854,838
Recreation equipment	42,584	1,667	-	44,251
Infrastructure	198,543	15,749	-	214,292
Total accumulated depreciation	<u>3,750,878</u>	<u>\$ 222,838</u>	<u>\$ -</u>	<u>3,973,716</u>
Governmental activity capital assets - net	<u>\$ 6,267,374</u>			<u>\$ 6,218,968</u>

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

Note 3 - Detail Notes on All Funds (continued)

A. Assets (continued)

Capital Assets (continued)

Depreciation expense by function:

General Government	\$ 79,020
Public Safety	62,704
Recreation	81,114
Total	\$ 222,838

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 140,972	-	-	\$ 140,972
Capital assets being depreciated:				
Sewer system	13,441,672	944,434	-	14,386,106
Water system	5,604,391	-	-	5,604,391
Water and sewer equipment	2,559,857	271,106	-	2,830,963
Total capital assets being depreciated	21,605,920	1,215,540	-	22,821,460
Less – accumulated depreciation for:				
Sewer system	4,583,274	268,161	-	4,851,435
Water system	2,002,849	122,110	-	2,124,959
Water and sewer equipment	1,490,033	93,108	-	1,583,141
Total accumulated depreciation	8,076,156	\$ 483,379	\$ -	8,559,535
Business-type activity capital assets - net	\$ 13,670,736			\$ 14,402,897

Discretely presented component unit

Activity for the ABC Board fixed assets at June 30, 2019:

Land	\$ 7,500
Buildings & equipment	240,060
Total	247,560
Less: accumulated depreciation	(127,745)
Total ABC fixed assets	\$ 119,815

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities

Pension Plan Obligations

Local Governmental Employees' Retirement System

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Pembroke 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 Pembroke's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.75% for general employees and firefighters, 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 Pembroke were \$131,768 for the year ended June 30, 2019.

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension Plan Obligations (continued)

Local Governmental Employees' Retirement System (continued)

Refunds of Contributions – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual’s right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2019, the Town reported a liability of \$658,325 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 0.02775%, which was a decrease of 0.00005% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$178,092. 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	\$ 101,564	\$ 3,408
Changes of assumptions	174,694	-
Net difference between projected and actual earnings on pension plan investments	90,369	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	25,332
Town contributions subsequent to the measurement date	131,768	-
Total	\$ 498,395	\$ 28,740

\$131,768 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension liability in the year ended June 30, 2020.

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

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

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:			
2019	\$	167,423	
2020		107,091	
2021		15,053	
2022		48,319	
2023		-	
Thereafter		-	
	<u>\$</u>	<u>337,886</u>	

Actuarial Assumptions. The total pension liability in the December 31, 2016 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 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

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

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

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

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

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

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

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate. The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.00 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20 percent) or one percentage point higher (8.00 percent) than the current rate:

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

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

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 1,581,353	\$ 658,325	\$ (112,972)

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.

The ABC Board and Pembroke Tourism Development Authority provide no pension plan.

Law Enforcement Officers Special Separation Allowance

1. Plan Description. The Town of Pembroke 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. 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:

Active plan members	14
Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Total	16

2. Summary of Significant Accounting Policies:

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

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

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension Plan Obligations (continued)

Law Enforcement Officers Special Separation Allowance (continued)

3. *Actuarial Assumptions.* The entry age actuarial cost method was used in the December 31, 2016 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	2.5 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-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

4. *Contributions.* The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

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 \$267,571. 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 \$24,262.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 9,598
Changes of assumptions	13,053	15,382
County benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	\$ 13,053	\$ 24,980

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension Plan Obligations (continued)

Law Enforcement Officers Special Separation Allowance (continued)

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ (2,241)
2021	(2,241)
2022	(2,241)
2023	(1,933)
2024	(1,735)
Thereafter	(1,536)
	<u>\$ (11,927)</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:

	<u>1% Decrease</u> <u>(2.64%)</u>	<u>Discount</u> <u>Rate (3.64%)</u>	<u>1% Increase</u> <u>(4.64%)</u>
Total pension liability	\$ 296,511	\$ 267,571	\$ 241,659

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

	<u>2019</u>
Beginning balance	\$ 275,321
Service cost	18,092
Interest on the total pension liability	8,411
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(2,443)
Changes of assumptions or other inputs	(13,499)
Benefit payments	(18,311)
Other changes	-
Ending balance of the total pension liability	<u>\$ 267,571</u>

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

Pension Plan Obligations (continued)

Law Enforcement Officers Special Separation Allowance (continued)

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

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

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	\$ 178,092	\$ 24,262	\$ 202,354
Pension liability	658,325	267,571	925,896
Proportionate share of the net pension liability	.02775%	n/a	
Deferred Outflows of Resources			
Differences between expected and actual experience	101,564	-	101,564
Changes of assumptions	174,694	13,053	187,747
Net difference between projected and actual earnings on plan investments	90,369	-	90,369
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	131,768	-	131,768
			-
Deferred Inflows of Resources			
Differences between expected and actual experience	3,408	9,598	13,006
Changes of assumptions	-	15,382	15,382
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	25,332	-	25,332

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

Note 3 - Detail Notes on All Funds (continued)

Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income 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.

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. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$36,029, which consisted of \$29,405 from the Town and \$6,624 from the law enforcement officers.

Other Postemployment Benefits

According to a Town resolution, the Town provides postemployment health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (LGERS) and have at least five years of creditable service with the Town. In addition, the Town pays the full cost of these benefits with a minimum of twenty years of creditable service with the Town. Retirees who do not meet the aforementioned criteria have the option to purchase coverage themselves and their dependents through the Town for eighteen months. The entire cost of this insurance is borne by the retirees. The Town maintains health care coverage through private insurers.

Membership of the Plan consisted of the following at June 30, 2017:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	5	1
Terminated plan members entitled to, but not yet receiving benefits	-	-
Active plan members	27	13
Total	32	14

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

Other Postemployment Benefits (continued)

Total OPEB Liability

The Town's total OPEB liability of \$2,010,163 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, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.5 percent
Salary increases	3.50 to 7.75 percent, including inflation
Discount rate	3.89 percent
Healthcare costs trend rates	Pre-Medicare 7.50 percent Medicare 5.50 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of the measurement date.

Changes in the Total OPEB Liability

	<u>Total OPEB Liability</u>
Balance at 6/30/17	\$ 2,015,301
Service cost	95,322
Interest on the total pension liability	70,882
Changes of benefit terms	-
Differences between expected and actual experience	8,362
Changes of assumptions or other inputs	(130,825)
Benefit payments	(48,879)
Other changes	-
Balance at 6/30/18	<u><u>\$ 2,010,163</u></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 Total Date Set for Healthy Annuitants Mortality Table.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience for the period January 1, 2010 through December 31, 2014.

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

Other Postemployment Benefits (continued)

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:

	1% Decrease (2.89%)	Discount Rate (3.89%)	1% Increase (4.89%)
Total OPEB liability	\$ 2,445,792	\$ 2,010,163	\$ 1,676,545

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:

	1% Decrease	Discount Rate	1% Increase
Total OPEB liability	\$ 1,637,125	\$ 2,010,163	\$ 2,510,971

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

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 20,385	\$ -
Changes of assumptions	-	292,019
Benefit payments and administrative costs made subsequent to the measurement date	-	-
Total	\$ 20,385	\$ 292,019

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

Other Postemployment Benefit (continued)

Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:			
2019	\$	(40,044)	
2020		(40,044)	
2021		(40,044)	
2022		(40,044)	
2023		(40,004)	
Thereafter		(71,414)	
	\$	(271,594)	

Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Government Employees' Retirement System (Death Benefit Plan), a multi-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 employees death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of the contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources at year-end are comprised of pension related deferrals of \$511,448 and OPEB related deferrals of \$20,385.

Deferred inflows of resources at year-end are comprised of property taxes receivable of \$122,137, pension related deferrals of \$53,720, and OPEB related deferrals of \$292,019.

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-Term Obligations (continued)

USDA Promissory Notes

On July 16, 2002, the Town executed two promissory notes between it and the USDA (lender) for purposes of constructing the new municipal complex. Both notes, one in the amount of \$225,000 and the other in the amount of \$750,000, bear interest at the rate of 4.75%, are payable over 40 years, and are collateralized by a deed of trust on certain real estate, as well as a UCC filing in connection with any personal property contained therein.

The following table summarizes the annual requirements to amortize the aforementioned notes:

	Governmental Activities	
	Principal	Interest
2020	\$ 18,029	\$ 36,864
2021	18,886	36,007
2022	19,783	35,110
2023	20,722	34,171
2024	21,706	33,187
2025-2029	125,015	149,450
2030-2034	157,663	116,802
2035-2039	198,839	75,626
2040-2043	195,853	23,719
	\$ 776,496	\$ 540,936

Branch Banking and Trust Company Loan

On January 24, 2007, the Town executed a note with Branch Banking and Trust Company for purposes of purchasing land and finishing the multi-purpose recreation complex. The note is collateralized by a deed of trust on certain real estate. The loan was refinanced to be repaid in 40 quarterly installments of \$36,250, plus interest at 1.89%.

	Governmental Activities	
	Principal	Interest
2020	\$ 145,000	\$ 20,211
2021	145,000	17,471
2022	145,000	14,730
2023	145,000	11,990
2024	145,000	9,249
2025	145,000	6,509
2026	145,000	3,768
2027	108,750	1,028
	\$ 1,123,750	\$ 84,956

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-Term Obligations (continued)

During January, 2016, the Town financed a piece of firefighting equipment in the amount of \$145,000 via two loans. Both loans are collateralized by aforementioned equipment. The first loan of \$45,000, through the USDA, requires seven annual payments in the amount of \$7,105, including interest at 2.875%. The second loan of \$100,000, through First Bank, requires seven annual payments in the amount of \$15,496, including interest of 2.33%.

	Governmental Activities			
	USDA Loan		First Bank Loan	
	Principal	Interest	Principal	Interest
2020	\$ 6,418	\$ 687	\$ 14,270	\$ 1,226
2021	6,605	500	14,606	890
2022	6,797	307	14,950	545
2023	6,996	109	15,303	193
	\$ 26,816	\$ 1,603	\$ 59,129	\$ 2,854

On July 19, 2011, the Town entered into a loan agreement with the USDA to finance renovations to the local library. The \$232,800 is to be repaid in 25 annual installments of \$14,904, including interest at 4%, payable in the following manner:

	Governmental Activities	
	Principal	Interest
2020	\$ 7,268	\$ 7,636
2021	7,572	7,332
2022	7,887	7,017
2023	8,218	6,686
2024	8,561	6,343
2025-2029	48,477	26,043
2030-2034	59,486	15,034
2035-2037	41,994	2,718
	\$ 189,463	\$ 78,809

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

Long-Term Obligations (continued)

General Obligation Bonds

General obligation bonds payable, serviced by the Water and Sewer Fund, were comprised of the following issues at June 30, 2019:

1969 Water and Sewer bonds payable in annual principal installments ranging from \$6,000 to \$7,000 through 2024; interest at 5.00%.	\$ 33,000
1986 Sanitary Sewer bonds payable in annual principal installments ranging from \$9,000 to \$20,000 through 2025; interest at 5.00%.	110,000
1986 Sanitary Sewer bonds payable in annual principal installments ranging from \$1,000 to \$2,000 through 2026; interest at 6.375%.	14,000
1994 Sanitary Sewer bonds payable in annual principal installments ranging from \$16,000 to \$58,000 through 2033; interest at 5.00%. On October 22, 2018, the debt was refinanced to ten payments of \$100,024 including interest at 3.67% through 2028.	755,024
1999 NC Drinking Water State Revolving Fund Team Loan payable in twenty annual equal principal payments of \$14,474 plus interest at the rate of 2.55%.	<u>14,474</u>
Total general obligation bonds payable	<u><u>\$ 926,498</u></u>

Annual debt service requirements to maturity of general obligation bonds, including interest of \$171,382 are as follows:

	Business-Type Activities	
	Principal	Interest
2020	\$ 116,789	\$ 36,123
2021	104,969	31,570
2022	107,720	27,291
2023	110,572	22,912
2024	106,529	18,427
2025-2029	379,919	35,059
	<u>\$ 926,498</u>	<u>\$ 171,382</u>

At June 30, 2019, the Town's legal debt margin was \$12,523,585.

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

Note 3 - Detail Notes on All Funds (continued)

B. Liabilities (continued)

Changes in Long-Term Liabilities

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Current Portion</u>
Governmental activities:					
Capital leases	\$ 21,004	\$ -	\$ 21,004	\$ -	\$ -
USDA Promissory notes	793,708	-	17,212	776,496	18,029
USDA loan	33,052	-	6,236	26,816	6,418
First Bank loan	73,071	-	13,942	59,129	14,270
BB&T bank loan	1,268,750	-	145,000	1,123,750	145,000
USDA Loan	196,439	-	6,976	189,463	7,636
Net pension liability (LGERS)	226,952	135,127	-	362,079	-
Total pension liability (LEO)	275,321	-	7,750	267,571	-
Total OPEB liability	1,027,804	-	2,826	1,024,978	-
Compensated absences	50,174	-	-	50,174	-
	<u>3,966,275</u>	<u>135,127</u>	<u>220,946</u>	<u>3,880,456</u>	<u>191,353</u>
Business-type activities					
General obligation bonds	1,031,448	20,875	125,825	926,498	116,789
Net pension liability (LGERS)	197,755	98,491	-	296,246	-
Total OPEB liability	987,497	-	2,312	985,185	-
Compensated absences	77,292	-	-	77,292	-
Totals	<u>\$ 2,293,992</u>	<u>\$ 119,366</u>	<u>\$ 128,137</u>	<u>\$ 2,285,221</u>	<u>\$ 116,789</u>

Discretely Presented Component Unit

The ABC Board borrowed money from a local bank for store refurbishment and equipment. Amount considered short and long-term, based on the foregoing are reflected in the schedule below. The loan is collateralized by a deed of trust on the store building. The maturity date on the loan is March 1, 2024.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 18,006	\$ 5,104	\$ 23,110
2021	19,115	3,995	23,110
2022	20,393	2,717	23,110
2023	21,649	1,461	23,110
2024	14,205	314	14,519
Total	<u>\$ 93,368</u>	<u>\$ 13,591</u>	<u>\$ 106,959</u>

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

Note 4 - Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant 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.

Commitments

The Town had no material contractual commitments at year end.

Risk Management

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

The Town carries commercial coverage for all other risks of loss. Settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 159-29, the finance officer and tax collector are performance bonded, individually, in the amount of \$50,000. All other employees in a position of trust are covered under a blanket insurance policy to \$50,000.

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

Note 4 - Summary Disclosure of Significant Contingencies (continued)

Risk Management (continued)

The Town of Pembroke ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage. Claims have not exceeded coverage during this last fiscal year, after a four-year hiatus in operations. The town carries no flood insurance since no assets are located in a flood designated area. The general obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All bonds are collateralized by the faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due. The TDA insurance coverage is limited to a blanket insurance policy of \$50,000 on the Town's Finance officer, separate and distinct from the Town, since it has no capital assets, debt or employees.

Note 5 – Fund Balance

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

<i>Total fund balance-General Fund</i>	\$ 1,908,186
Less:	
Inventories	-
Stabilization by State Statute	394,966
Streets	630
Subsequent year's expenditures	150,000
Remaining Fund Balance	1,362,590

Note 6 – Subsequent Events

Subsequent events were evaluated through November 4, 2019, which is the date the financial statements were available to be issued.

Required Supplementary Financial Data

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

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

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

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Pembroke's proportion of the net pension liability (asset) (%)	0.02775%	0.02780%	0.02746%	0.02700%	0.02670%	0.0255%
Pembroke's proportion of the net pension liability (asset) (\$)	\$ 658,325	\$ 424,707	\$ 582,793	\$ 121,174	\$ (157,462)	\$ 307,373
Pembroke's covered-employee payroll	\$ 1,449,612	\$ 1,559,331	\$ 1,491,773	\$ 1,461,105	\$ 1,375,815	\$ 1,447,779
Pembroke's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	45.41%	27.24%	39.07%	8.29%	(11.45%)	21.23%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 131,768	\$ 117,404	\$ 118,748	\$ 103,164	\$ 105,107	\$ 98,231
Contributions in relation to the contractually required contribution	<u>131,768</u>	<u>117,404</u>	<u>118,748</u>	<u>103,164</u>	<u>105,107</u>	<u>98,231</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Pembroke's covered-employee payroll	\$ 1,627,211	\$ 1,449,612	\$ 1,559,331	\$ 1,491,773	\$ 1,461,105	\$ 1,375,815
Contributions as a percentage of covered-employee payroll	8.10%	8.10%	7.62%	6.92%	7.11%	7.14%

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 275,321	\$ 258,643	\$ 254,792
Service cost	18,092	15,563	15,546
Interest on the total pension liability	8,411	9,665	8,856
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(2,443)	(10,829)	-
Changes of assumptions or other inputs	(13,499)	18,791	(7,084)
Benefit payments	(18,311)	(16,512)	(13,467)
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 267,571</u>	<u>\$ 275,321</u>	<u>\$ 258,643</u>

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

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

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 267,571	\$ 275,321	\$ 258,643
Covered payroll	584,140	581,601	597,173
Total pension liability as a percentage of covered payroll	45.81%	47.34%	43.31%

Notes to the schedules:

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

Town of Pembroke, North Carolina
Schedule of Changes in the Total OPEB Liability and Related Ratios
June 30, 2019

	<u>2019</u>	<u>2018</u>
Total OPEB Liability		
Service cost	\$ 95,322	\$ 109,657
Interest	70,882	62,765
Changes of benefit terms	-	-
Differences between expected and actual experience	8,362	17,072
Changes of assumptions or other inputs	(130,825)	(231,787)
Benefit payments	(48,879)	(54,845)
Net change in total OPEB liability	<u>(5,138)</u>	<u>(97,138)</u>
Total OPEB liability - beginning	<u>2,015,301</u>	<u>2,112,439</u>
Total OPEB liability - ending	<u>\$ 2,010,163</u>	<u>\$ 2,015,301</u>
Covered payroll	\$ 1,219,465	\$ 1,219,465
Total OPEB liability as a percentage of covered payroll	164.84%	165.26%

Notes to the schedules:

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	3.89%
2018	3.56%

Individual Fund Statements and Schedules

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad Valorem taxes			
Current year	\$	\$ 1,192,513	\$
Prior years		60,835	
Tax penalties		11,998	
Tax discounts		(5,385)	
Total	<u>1,264,453</u>	<u>1,259,961</u>	<u>(4,492)</u>
Other taxes and licenses			
Local sales tax		853,235	
Privilege licenses		10,635	
Total	<u>853,235</u>	<u>863,870</u>	<u>10,635</u>
Unrestricted intergovernmental			
Payments in lieu of taxes		30,441	
Utility franchise tax		271,441	
ABC store profit distribution		31,285	
Beer and wine tax		13,939	
Total	<u>327,380</u>	<u>347,106</u>	<u>19,726</u>
Restricted intergovernmental			
Powell bill allocation		93,304	
FEMA Grant		161,645	
Courtroom facility		3,795	
School resource officer reimbursement		45,281	
Total	<u>283,024</u>	<u>304,025</u>	<u>21,001</u>
Sales and services			
Sanitation fees		560,759	
Total	<u>560,759</u>	<u>560,759</u>	<u>-</u>
Investment earnings			
	<u>17,919</u>	<u>17,919</u>	<u>-</u>
Miscellaneous			
Fire protection service fee		20,981	
Insurance proceeds		118,186	
Police donations and park sponsorships		6,650	
Park revenue and fees		36,870	
U. S. Cellular lease		15,455	
American Towers lease		32,952	
Alltel Corporation		38,405	
Bellsouth lease		17,269	
Traffic and noise violations		200	
Golf-cart permits		27,555	
Miscellaneous income		31,578	
Total	<u>392,969</u>	<u>346,101</u>	<u>(46,868)</u>
Total revenues	<u>\$ 3,699,739</u>	<u>\$ 3,699,741</u>	<u>\$ 2</u>

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Expenditures:</u>			
General Government			
Governing body			
Board remuneration and benefits	\$	\$ 28,556	\$
Professional fees		30,468	
Travel		30,628	
Dues and subscriptions		5,119	
Insurance and bonds		20,156	
Miscellaneous expense		3,564	
Total	<u>118,491</u>	<u>118,491</u>	<u>-</u>
Administration			
Salaries and benefits		94,671	
Professional service		31,473	
Telephone and postage		16,947	
Travel and school		7,836	
Maintenance and repairs - equipment		2,500	
Maintenance and repairs - automobiles		-	
Supplies - automobiles		534	
Supplies - departmental		32,639	
Dues and subscriptions		1,258	
Insurance and bonds		11,008	
Capital outlay		-	
Miscellaneous		2,657	
Total	<u>201,523</u>	<u>201,523</u>	<u>-</u>
Courthouse			
Postage and telephone		1,250	
Utilities		3,435	
Rent		19,282	
Total	<u>23,968</u>	<u>23,967</u>	<u>1</u>
Public buildings and grounds			
Utilities		38,316	
Maintenance and repairs		58,944	
Total	<u>97,260</u>	<u>97,260</u>	<u>-</u>
Total general government	<u>\$ 441,242</u>	<u>\$ 441,241</u>	<u>\$ 1</u>

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Expenditures (continued):</u>			
Public safety			
Police			
Salaries and benefits	\$	\$ 941,440	\$
Telephone and postage		22,039	
Travel and schools		3,402	
Maintenance and repairs - equipment		3,743	
Maintenance and repairs - vehicles		8,847	
Supplies - vehicles		50,538	
Supplies - departmental		55,112	
Uniforms		14,559	
Insurance and bonds		33,517	
Capital outlay		107,427	
Miscellaneous expense		10,879	
Total	<u>1,251,503</u>	<u>1,251,503</u>	<u>-</u>
Fire department			
Salaries and benefits		30,392	
Telephone and postage		6,255	
Utilities		5,367	
Travel		4,941	
Maintenance and repairs - equipment		3,148	
Maintenance and repairs - vehicles		9,988	
Supplies - vehicles		1,643	
Supplies - departmental		59,924	
Dues and subscriptions		5,363	
Insurance and bonds		8,864	
Miscellaneous expense		1,016	
Capital outlay		30,395	
Total	<u>167,296</u>	<u>167,296</u>	<u>-</u>
Contribution to rescue squad	<u>17,000</u>	<u>17,000</u>	<u>-</u>
Total public safety	<u>\$ 1,435,799</u>	<u>\$ 1,435,799</u>	<u>\$ -</u>

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Expenditures (continued):</u>			
Transportation			
Streets			
Utilities	\$	\$ 50,732	\$
Maintenance and repairs - equipment		1,805	
Supplies - vehicles		30,056	
Supplies - departmental		26,724	
Miscellaneous		3,552	
Capital outlay		9,310	
Insurance and bonds		7,694	
Total	<u>129,873</u>	<u>129,873</u>	<u>-</u>
Powell Bill			
Contracted services		94,351	
Insurance and bonds		9,634	
Total	<u>103,985</u>	<u>103,985</u>	<u>-</u>
Total transportation	<u>233,858</u>	<u>233,858</u>	<u>-</u>
Environmental protection			
Contractual services		365,626	
Landfill fees		92,830	
Total environmental protection	<u>458,456</u>	<u>458,456</u>	<u>-</u>
Cultural and recreational			
Recreation			
Salaries and benefits		143,077	
Telephone and postage		4,503	
Utilities		21,492	
Travel		1,004	
Maintenance and repair		17,432	
Supplies - vehicles		1,431	
Supplies - departmental		49,124	
Laundry		531	
Hurricane expenses		109,433	
Contracted services		19,940	
Insurance and bonding		16,141	
Dues and subscriptions		385	
Capital outlay		27,300	
Miscellaneous		13,880	
Total	<u>426,141</u>	<u>425,673</u>	<u>468</u>
Contribution to county library	<u>\$ 21,000</u>	<u>\$ 21,000</u>	<u>\$ -</u>

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Expenditures (continued):</u>			
Support of charities and cultural events			
Miscellaneous contributions	\$ 27,200	\$ 27,667	\$ (467)
Total	<u>27,200</u>	<u>27,667</u>	<u>(467)</u>
Total cultural and recreational	<u>474,341</u>	<u>474,340</u>	<u>1</u>
Debt service			
Principal retirement		210,370	
Interest and fees		71,847	
Total debt service	<u>282,239</u>	<u>282,217</u>	<u>22</u>
Contingency	<u>373,804</u>	<u>-</u>	<u>373,804</u>
Total expenditures	<u>3,699,739</u>	<u>3,325,911</u>	<u>373,828</u>
Revenues over (under) expenditures	<u>-</u>	<u>373,830</u>	<u>373,830</u>
Other financing sources (uses)			
Appropriated fund balance	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>373,830</u>	<u>\$ 373,830</u>
Fund balances - beginning of year		<u>1,534,356</u>	
Fund balances - end of year		<u>\$ 1,908,186</u>	

**Town of Pembroke, North Carolina
Combining Balance Sheet
Non-Major Governmental Fund
June 30, 2019**

	<u>Community Development Fund</u>
<u>Assets</u>	
Cash	\$ 21,753
Due from general fund	<u>-</u>
Total assets	<u><u>\$ 21,753</u></u>
 <u>Liabilities and Fund Balance</u>	
Accounts payable	<u>\$ -</u>
Total liabilities	<u>-</u>
Fund balance	<u>21,753</u>
Total liabilities and fund balance	<u><u>\$ 21,753</u></u>

Town of Pembroke, North Carolina
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
Non-Major Governmental Fund
From Inception and for the Year Ended June 30, 2019

	Project Authorization	Community Development Fund		
		Prior Years	Actual Current Year	Total to Date
Revenues				
Building Reuse and restoration CDBG	\$ 64,832	\$ 25,204	\$ -	\$ 25,204
Housing improvement fund Owner contributions	-	30,977	-	30,977
Investment earnings	-	193	-	193
Total revenue	<u>64,832</u>	<u>56,374</u>	<u>-</u>	<u>56,374</u>
Expenditures				
Building Reuse and restoration Construction and administration	64,832	25,204	-	25,204
Housing improvement fund Construction and administration	-	9,417	-	9,417
Total expenditures	<u>64,832</u>	<u>34,621</u>	<u>-</u>	<u>34,621</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 21,753</u>	<u>-</u>	<u>\$ 21,753</u>
Fund balance - beginning of year			<u>21,753</u>	
Fund balance - end of year			<u>\$ 21,753</u>	

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Revenues:</u>			
Operating revenue			
Charges for services -			
Water and sewer revenue	\$	\$ 2,657,004	\$
Taps and connections		12,000	
Reconnection fees		5,592	
Capacity replacement fee		-	
Miscellaneous income		347,479	
Total operating revenues	<u>3,022,075</u>	<u>3,022,075</u>	<u>-</u>
Non-operating revenues			
Interest income	<u>26,786</u>	<u>26,786</u>	<u>-</u>
Total revenues	<u>3,048,861</u>	<u>3,048,861</u>	<u>-</u>
<u>Expenditures:</u>			
Public works administration			
Salaries and benefits		415,850	
Professional services		30,985	
Telephone and postage		8,205	
Utilities		9,314	
Travel and school		3,559	
Maintenance and repairs -equipment		15,029	
Maintenance and repairs - vehicles		14,153	
Supplies - vehicles		10,780	
Supplies - departmental		44,112	
Laundry		1,007	
Contractual services		1,148	
Dues and subscriptions		1,302	
Insurance and bonds		10,929	
Capital outlay		215,450	
Miscellaneous		2,158	
Total public works administration	<u>\$ 783,981</u>	<u>\$ 783,981</u>	<u>\$ -</u>

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<u>Expenditures (continued):</u>			
Water department			
Salaries and benefits	\$	\$ 338,459	\$
Professional services		5,091	
Postage and telephone		7,996	
Utilities		34,559	
Travel		1,651	
Maintenance and repairs - equipment		139,184	
Maintenance and repairs - vehicles		-	
Supplies - vehicles		6,596	
Supplies - departmental		76,342	
Laundry		2,337	
Dues and subscriptions		6,460	
Insurance and bonding		17,351	
Capital outlay		19,898	
Miscellaneous		450	
Total water department	<u>656,374</u>	<u>656,374</u>	<u>-</u>
Sewer department			
Salaries and benefits		452,093	
Professional services		46,877	
Postage and telephone		13,039	
Utilities		135,631	
Travel		924	
Maintenance and repairs - equipment		124,372	
Maintenance and repairs - vehicles		266	
Supplies - departmental		162,151	
Laundry		1,962	
Contractual service		6,000	
Dues and subscriptions		1,970	
Insurance and bonding		30,217	
Sludge removal		206,345	
Miscellaneous		708	
Capital outlay		35,758	
Total sewer department	<u>\$ 1,219,138</u>	<u>\$ 1,218,313</u>	<u>\$ 825</u>

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

	Budget	Actual	Variance Positive (Negative)
<u>Expenditures (continued):</u>			
Contingency	\$ 213,686	\$ -	\$ 213,686
Debt service			
Principal retirement		125,825	
Interest		49,856	
Total debt service	175,682	175,681	1
Total expenditures	3,048,861	2,834,349	214,512
Revenues over (under) expenditures	-	214,512	214,512
Other financing sources (uses)			
Transfer from other funds	-	-	-
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 214,512	\$ 214,512

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

Revenues over (under) expenditures	\$ 214,512
Reconciling items	
Principal retirement	125,825
Capital outlay	271,106
Decrease in deferred outflows of resources - pensions	81,924
Increase in deferred outflows of resources - OPEB	2,403
Decrease in net pension liability	(98,491)
Increase in OPEB liability	2,312
Decrease in deferred inflows of resources - pensions	(1,356)
Increase in deferred inflows of resources - OPEB	(39,492)
Depreciation	(483,379)
Capital contributions	927,112
Change in net position	\$ 1,002,476

Town of Pembroke, North Carolina
Water and Sewer Capital Projects Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP) (continued)
From Inception and for the Year Ended June 30, 2019

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>
<u>Revenues - Water project</u>				
Restricted intergovernmental				
Brownsfields Assessment Cooperative				
Agreement - EPA Grant	\$ 200,000	\$ 199,274	\$ -	\$ 199,274
Revitalization grant	100,000	96,107	-	96,107
Golden Leaf project 19-007	281,105	-	8,230	8,230
NC Dept of Commerce - Rural				
Economic Division				
Downtown revitalization	100,000	100,000	-	100,000
UNCP Stormwater project	893,291	117,655	834,937	952,592
NC water infrastructure grant	150,000	66,055	83,945	150,000
Total revenues	<u>1,724,396</u>	<u>579,091</u>	<u>927,112</u>	<u>1,506,203</u>
<u>Expenditures - Sewer improvements</u>				
Brownsfields Assessment Cooperative				
Agreement - EPA Grant	200,000	197,972	-	197,972
Revitalization grant	100,000	63,240	-	63,240
Golden Leaf project 19-007	281,105	-	8,230	8,230
NC Dept of Commerce - Rural				
Economic Division				
Downton revitalization	100,000	-	66,096	66,096
UNCP Stormwater project:				
Design	140,000	120,313	-	120,313
Construction	753,291	-	832,280	832,280
Waste water asset inventory project	150,000	114,045	37,828	151,873
Total expenditures	<u>1,724,396</u>	<u>495,570</u>	<u>944,434</u>	<u>1,440,004</u>
Revenues and other financing sources				
over (under) expenditures	<u>\$ -</u>	<u>\$ 83,521</u>	<u>\$ (17,322)</u>	<u>\$ 66,199</u>

Other Schedules

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

<u>Fiscal Year</u>	<u>Uncollected Balances June 30, 2018</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balances June 30, 2019</u>
2018-2019	\$ -	\$ 1,250,059	\$ 1,192,513	\$ 57,546
2017-2018	84,239	-	64,760	19,479
2016-2017	25,192	-	11,430	13,762
2015-2016	10,584	-	5,912	4,672
2014-2015	5,068	-	877	4,191
2013-2014	4,176	-	392	3,784
2012-2013	4,243	-	(1,451)	5,694
2011-2012	6,724	-	885	5,839
2010-2011	6,346	-	2,467	3,879
2009-2010	4,499	-	1,208	3,291
2008-2009	3,461	-	3,461	-
	-	-	-	-
	<u>\$ 154,532</u>	<u>\$ 1,250,059</u>	<u>\$ 1,282,454</u>	<u>122,137</u>
Less: allowance for uncollected accounts				<u>-</u>
Ad valorem taxes receivable - net				<u><u>\$ 122,137</u></u>
Reconciliation to revenues				
Ad valorem taxes - General Fund				\$ 1,259,961
Reconciling items -				
Penalties collected				(11,998)
Discounts allowed				5,385
Other credits and refunds				32,567
Taxes written off per statute penalty and interest collected				<u>(3,461)</u>
Total collections and credits				<u><u>\$ 1,282,454</u></u>

Town of Pembroke, North Carolina
Analysis of Current Year Tax Levy –
Town-wide Levy
For the Year Ended June 30, 2019

	Town-wide			Total Levy	
	Property Valuation	Rate (per \$100)	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy					
Real and personal property less senior citizen and religious exemptions	\$182,546,562	0.64	\$1,168,298	\$1,168,298	\$ -
Vehicles	12,775,156	0.64	81,761	-	81,761
Net levy	195,321,718	0.64	1,250,059	1,168,298	81,761
Uncollected taxes - June 30, 2019			57,546	55,291	2,255
Current year taxes collected			\$1,192,513	\$1,113,007	\$ 79,506
Current levy collection percentage			95.40%	95.27%	97.24%

Compliance Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs

N. C. Association of CPAs

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

Independent Auditor's Report

To the Honorable Mayor and
Board of Town Commissioners
Town of Pembroke, 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 discretely present component units, each major fund, and the aggregate remaining fund information of the Town of Pembroke, 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 Pembroke, North Carolina's basic financial statements, and have issued our report thereon dated November 4, 2019. The financial statements of the Pembroke ABC Board and Pembroke Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

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

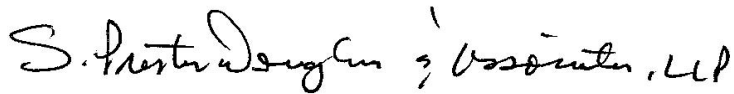
Our consideration of internal control was for a limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Pembroke, North Carolina'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*.

Purpose of this Report

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

Handwritten signature in black ink that reads "S. Preston Douglas & Associates, LLP". The signature is written in a cursive style.

Lumberton, North Carolina
November 4, 2019

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs
N. C. Association of CPAs

Report on Compliance for Each Major State Program; Report on Internal Control Over Compliance; With OMB Uniform Guidance; and the State Single Audit Implementation Act

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

Report on Compliance for Each Major State Program

We have audited Town of Pembroke, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of Town of Pembroke, North Carolina's major state programs for the year ended June 30, 2019. The Town of Pembroke, North Carolina's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with state statutes, regulations, and the terms and conditions of its state awards applicable to its state programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Town of Pembroke, North Carolina's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the *State Single Audit Implementation Act*. Those standards, Uniform Guidance, and the State Single Audit Implementation Act, require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Town of Pembroke, North Carolina's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of Town of Pembroke, North Carolina's compliance.

Opinion on Each Major Federal Program

In our opinion, Town of Pembroke, North Carolina complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2019.


Report on Internal Control over Compliance

Management of Town of Pembroke, North Carolina is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Town of Pembroke, North Carolina's internal control over compliance with the types of requirements that could have a direct and material effect on each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Town of Pembroke, North Carolina's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



S. Preston Douglas, Esq.

Lumberton, North Carolina
November 4, 2019

Town of Pembroke, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2019

Section I. Summary of Auditor's Results
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Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	_____ yes <u> X </u> no
• Significant deficiency(s) identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported
• Noncompliance material to financial statements	_____ yes <u> X </u> no

State Awards

Internal control over major State programs:	
• Material weakness(es) identified?	_____ yes <u> X </u> no
• Significant deficiency(s) identified that are not considered to be material weaknesses	_____ yes <u> X </u> none reported

Type of auditor's report issued on compliance for major State programs:	Unmodified
• Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516 (a)	_____ yes <u> X </u> no

Identification of major State programs:

Program Name

- N.C. Department of Commerce – Rural Economic Development Division – UNCP Hydrological Grant 2017-128-3214-2593

Town of Pembroke, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2019

Section II. Financial Statement Findings

None reported

Section III. State Award Findings and Questioned Costs

None reported

**Town of Pembroke, North Carolina
Corrective Action Plan
For the Year Ended June 30, 2019**

Section II. Financial Statement Findings

None reported

Section III. State Award Findings and Questioned Costs

None reported

Town of Pembroke, North Carolina
Summary Schedule of Prior Year Audit Findings
For the Year Ended June 30, 2019

There were no prior year findings.

Town of Pembroke, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Year Ended June 30, 2019

<u>Grantor/Pass - through Grant/Program Title</u>	<u>Federal CFDA Number</u>	<u>Award number/State Pass-through Grantor's Number</u>	<u>Federal (Direct Pass- through) Expenditures</u>	<u>State Expenditures</u>
Federal Grants:				
Cash Assistance:				
Major Programs				
<u>U.S. Department of Homeland Security</u>				
Passed through NC Dept of Public Safety				
Disaster Grants - Public Assistance				
(Presidentially Declared Disasters)				
	97.036		\$ 121,234	40,411
Total Major Programs			<u>121,234</u>	
State Grants:				
Cash Assistance:				
<u>N.C. Department of Commerce</u>				
Rural Infrastructure Program	N/A	2017-128-3214-2593	-	757,280
Hometown Strong Disaster Recovery	N/A		-	75,000
Rural Infrastructure Program	N/A	2018-058-1257-1534	-	66,096
<u>N.C. Department of Environmental Quality</u>				
AIA asset inventory project	N/A	E-AIA-W-16-0032	-	37,828
<u>N.C. Department of Transportation</u>				
Non-state system street-aid allocation	N/A		-	<u>94,351</u>
Total federal and State awards			<u>\$ 121,234</u>	<u>\$ 1,070,966</u>

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Town of Pembroke, under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because this Schedule presents only a selected portion of the operations of the Town of Pembroke, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Pembroke.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein types of expenditures are not allowable or are limited as to reimbursement.

Note 3: Indirect Cost Rate

The Town of Pembroke has elected not to use the 10-percent de minimis indirect rate as allowed under the Uniform Guidance.