

Town of Rich Square

FINANCIAL REPORT

June 30, 2019



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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Board of Aldermen
Town of Rich Square, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, business-type activities, and each major fund of the Town of Rich Square, 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'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.

Auditors' Responsibility

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

An audit includes performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities, and each major fund of the Town of Rich Square, North Carolina as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 12 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions on pages 53 and 54, respectively, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 55 and 56 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 23, 2020 on our consideration of Town of Rich Square's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is solely 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 the effectiveness of the Town's 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 Rich Square's internal control over financial reporting and compliance.

Caru, Riggs & Ingram, L.L.C.

New Bern, North Carolina
April 23, 2020

Town of Rich Square Management's Discussion and Analysis

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

Financial Highlights

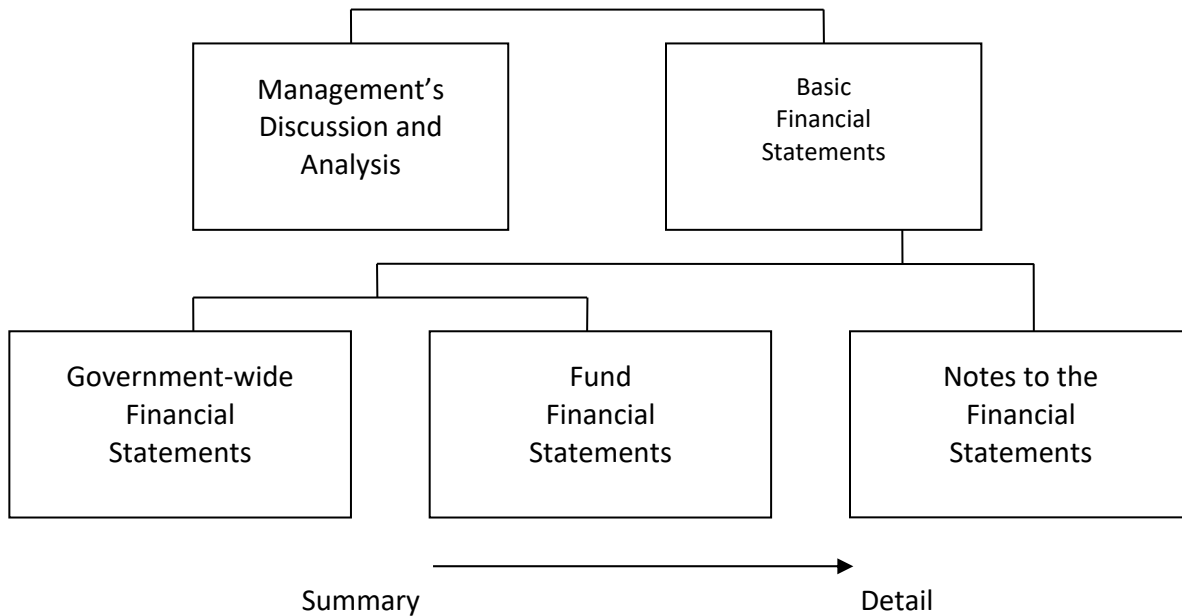
- The assets and deferred outflows of resources of the Town exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$7,233,810 (*net position*).
- The government's total net position increased by \$69,198, primarily due to increases in the governmental activities net position.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,310,794, an increase of \$31,439 in comparison with the prior year. Approximately 64.99% of this total amount, or \$851,823, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$851,823 or 157.52% of total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basis Financial Statements

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

The next statements (*Exhibits 3 through 8*) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, the **required supplemental information** provides information about participation in the Local Government Employee Retirement System and information regarding the Special Separation Allowance for Law Enforcement Officers and **supplemental information** is provided to show details about the Town's individual funds and tax related information. Budgetary information required by the General Statutes also can be found in this part of the statements.

Town of Rich Square Management's Discussion and Analysis

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

The fund financial statements (*see Figure 1*) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (*or non-compliance*) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

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

Town of Rich Square Management's Discussion and Analysis

The Town adopts an annual budget for its General Fund and Cemetery 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. 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. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23 of this report.

Other Information – In addition to basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 53 of this report.

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

Town of Rich Square Management's Discussion and Analysis

Town of Rich Square's Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 1,247,786	\$ 1,162,308	\$ 417,549	\$ 330,636	\$ 1,665,335	\$ 1,492,944
Restricted assets	166,103	211,372	38,908	38,436	205,011	249,808
Capital assets	567,662	510,216	5,063,719	5,175,964	5,631,381	5,686,180
Deferred outflows of resources	35,531	26,074	10,244	8,411	45,775	34,485
Total assets and deferred outflows of resources	2,017,082	1,909,970	5,530,420	5,553,447	7,547,502	7,463,417
Current liabilities	23,466	16,596	42,757	46,849	66,223	63,445
Long-term liabilities	61,334	50,884	178,995	178,968	240,329	229,852
Deferred inflows of resources	6,030	4,625	1,110	883	7,140	5,508
Total liabilities and deferred inflows of resources	90,830	72,105	222,862	226,700	313,692	298,805
Net investment in capital assets	567,662	510,216	4,893,758	5,003,130	5,461,420	5,513,346
Restricted net position	458,971	508,677	-	-	458,971	508,677
Unrestricted net position	899,619	818,972	413,800	323,617	1,313,419	1,142,589
Total net position	\$ 1,926,252	\$ 1,837,865	\$ 5,307,558	\$ 5,326,747	\$ 7,233,810	\$ 7,164,612

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of the Town exceeded liabilities and deferred inflows of resources by \$7,233,810 as of June 30, 2019. The Town's net position increased by \$69,198 for the fiscal year ended June 30, 2019. However, the largest portion (75.5%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$458,971 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,313,419 is unrestricted.

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

- Diligence in controlling cost
- Improved property tax collections

Town of Rich Square Management's Discussion and Analysis

Town of Rich Square's Changes in Net Position

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 2,743	\$ 5,695	\$ 332,321	\$ 343,416	\$ 335,064	\$ 349,111
Operating grants	30,398	30,529	-	-	30,398	30,529
Capital grants	-	200,000	39,000	-	39,000	200,000
General revenues:						
Property taxes	286,318	284,792	-	-	286,318	284,792
Other taxes	298,622	281,993	-	-	298,622	281,993
Other revenues	8,551	272	4,315	6,592	12,866	6,864
Total revenues	626,632	803,281	375,636	350,008	1,002,268	1,153,289
Expenses:						
General government	171,936	171,165	-	-	171,936	171,165
Public safety	134,863	137,470	-	-	134,863	137,470
Transportation	218,632	258,075	-	-	218,632	258,075
Environmental protection	12,814	6,331	-	-	12,814	6,331
Water and sewer	-	-	394,825	388,513	394,825	388,513
Total expenses	538,245	573,041	394,825	388,513	933,070	961,554
Transfers	-	1,529	-	(1,529)	-	-
Increase (decreases) in net position	88,387	231,769	(19,189)	(40,034)	69,198	191,735
Net position, beginning	1,837,865	1,615,545	5,326,747	5,366,781	7,164,612	6,982,326
Net position, July 1 (restated)	-	1,606,096	-	5,366,781	-	6,972,877
Net position, June 30	\$ 1,926,252	\$ 1,837,865	\$ 5,307,558	\$ 5,326,747	\$ 7,233,810	\$ 7,164,612

Governmental activities: Governmental activities increased the Town's net position by \$88,387. Key elements of the increase are as follows:

- Other tax revenues increased slightly
- Continued diligence in the collection of property taxes
- Continued diligence in controlling costs

Business-type activities: Business-type activities decreased the Town's net position by \$19,189. Key elements of this decrease are as follows:

- Increased expenses due to additional operational costs

Town of Rich Square Management's Discussion and Analysis

Financial Analysis of the Town of Rich Square's Funds

As noted earlier, the Town 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. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Rich Square. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$851,823, while total governmental fund balance reached \$925,728. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The Town currently has an available fund balance of 157.5% of total General Fund expenditures, and total fund balance represents 171.18% of the same amount.

At June 30, 2019, the governmental funds of the Town reported a combined fund balance of \$1,310,794, a 2.5% increase over last year. Included in this change in fund balance are decreases in the fund balance of the Cemetery Fund.

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.

There were several reasons the Town revised its budget throughout the year. They also had increases in capital outlays, repairs and maintenance as well as additional staffing needs.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$413,800. The total decrease in net position for this fund was \$19,189. Other factors concerning the finances of this fund have already been addressed in the discussion of the Town's business-type activities.

Town of Rich Square Management's Discussion and Analysis

Capital Assets. As of June 30, 2019, the Town's investment in capital assets for its governmental and business-type activities totals \$5,631,381.

Major capital asset transactions during the year include the following additions:

- Construction in progress related to a building renovation project
- Construction in progress related to a new water and sewer project
- Street paving project

No major disposals were recorded this year.

**Town of Rich Square's Capital Assets
(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 72,930	\$ 72,930	\$ 5,421	\$ 5,421	\$ 78,351	\$ 78,351
Construction in progress	39,710	-	39,000	-	78,710	-
Buildings and improvements	382,229	347,477	-	-	382,229	347,477
Equipment	55,030	66,618	68,623	80,573	123,653	147,191
Vehicles	17,763	23,191	1,633	2,333	19,396	25,524
Plant and distribution system	-	-	4,949,042	5,087,637	4,949,042	5,087,637
Total assets	\$ 567,662	\$ 510,216	\$ 5,063,719	\$ 5,175,964	\$ 5,631,381	\$ 5,686,180

Additional information on the Town's capital assets can be found in the Note 3 of the basic financial statements.

Long-term Debt. As of June 30, 2019, the Town had total debt outstanding of \$169,961. All of Town's debt is backed by the full faith and credit of the Town.

Town of Rich Square's Outstanding Debt

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Installment loans	\$ -	\$ -	\$ 169,961	\$ 172,834	\$ 169,961	\$ 172,834

The Town's total debt decreased by \$2,873 (1.66%) during the past fiscal year, primarily due to principal payments made in the business-type activities.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within the government's boundaries. The legal debt margin for Town is \$3,570,240.

Additional information regarding the Town's long-term debt can be found in Note 3 of the basic financial statements.

Town of Rich Square Management's Discussion and Analysis

Economic Factors and Next Year's Budgets and Rates

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

- The Town does not expect any growth during the next fiscal year.
- The Town expects governmental activities and business-type activities to remain stable; (i.e.) revenues and expenditures/expenses will remain about the same. There were no significant rate increases included in the FY20 budget.

Request for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Mayor, Town of Rich Square, P.O. Box 336, Rich Square, NC, (252) 539-2315.

Town of Rich Square
Statement of Net Position
June 30, 2019
Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,098,036	\$ 388,369	\$ 1,486,405
Taxes receivable (net)	80,129	-	80,129
Accounts receivable (net)	69,621	29,180	98,801
Restricted cash and cash equivalents	166,103	38,908	205,011
Total current assets	1,413,889	456,457	1,870,346
Noncurrent assets:			
Capital assets:			
Land and construction in progress	112,640	44,421	157,061
Capital assets, net of depreciation	455,022	5,019,298	5,474,320
Total capital assets	567,662	5,063,719	5,631,381
Total assets	1,981,551	5,520,176	7,501,727
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	35,531	10,244	45,775
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	22,966	397	23,363
Customer deposits	-	38,908	38,908
Current portion of long-term liabilities	500	3,452	3,952
Total current liabilities	23,466	42,757	66,223
Long-term liabilities:			
Net pension liability	56,869	11,554	68,423
Due in more than one year	4,465	167,441	171,906
Total liabilities	84,800	221,752	306,552
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	6,030	1,110	7,140
NET POSITION			
Net investment in capital assets	567,662	4,893,758	5,461,420
Restricted for:			
Stabilization by State Statute	69,621	-	69,621
Streets	4,284	-	4,284
Economic development	161,819	-	161,819
Cemetery Perpetual Care	223,247	-	223,247
Unrestricted	899,619	413,800	1,313,419
Total net position	\$ 1,926,252	\$ 5,307,558	\$ 7,233,810

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

**Town of Rich Square
Statement of Activities
For the Year Ended June 30, 2019
Exhibit 2**

Functions/ Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental activities:							
General government	\$ 171,936	\$ -	\$ -	-	\$ (171,936)	\$ -	\$ (171,936)
Public safety	134,863	18	-	-	(134,845)	-	(134,845)
Transportation	218,632	-	30,398	-	(188,234)	-	(188,234)
Environmental protection	12,814	2,725	-	-	(10,089)	-	(10,089)
Total governmental activities	538,245	2,743	30,398	-	(505,104)	-	(505,104)
Business-type activities:							
Water and Sewer Fund	394,825	332,321	-	39,000	-	(23,504)	(23,504)
Total primary government	\$ 933,070	\$ 335,064	\$ 30,398	\$ 39,000	(505,104)	(23,504)	(528,608)
General revenues:							
Taxes:							
Property taxes, levied for general purposes					286,318	-	286,318
Other taxes					298,622	-	298,622
Investment earnings					3,840	971	4,811
Miscellaneous					4,711	3,344	8,055
Total general revenues not including transfers					593,491	4,315	597,806
Change in net position					88,387	(19,189)	69,198
Net position, beginning					1,837,865	5,326,747	7,164,612
Net position - ending					\$ 1,926,252	\$ 5,307,558	\$ 7,233,810

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

Town of Rich Square
Balance Sheet – Governmental Funds
June 30, 2019
Exhibit 3

	Major Funds			Total Governmental Funds
	General	Grant Project Fund	Cemetery Fund	
ASSETS				
Cash and cash equivalents	\$ 874,789	\$ -	\$ 223,247	\$ 1,098,036
Restricted cash	4,284	161,819	-	166,103
Ad valorem taxes receivable (net)	80,129	-	-	80,129
Accounts receivable	69,621	-	-	69,621
Total assets	\$ 1,028,823	\$ 161,819	\$ 223,247	\$ 1,413,889
LIABILITIES				
Accounts payable and accrued liabilities	\$ 22,966	\$ -	\$ -	\$ 22,966
Total liabilities	22,966	-	-	22,966
DEFERRED INFLOWS OF RESOURCES				
Property tax receivable	80,129	-	-	80,129
FUND BALANCES				
Non Spendable				
Perpetual maintenance	-	-	223,247	223,247
Restricted				
Stabilization of State Statute	69,621	-	-	69,621
Economic development	-	161,819	-	161,819
Streets	4,284	-	-	4,284
Unassigned	851,823	-	-	851,823
Total fund balances	925,728	161,819	223,247	1,310,794
Total liabilities, deferred inflows of resources and fund balances	\$ 1,028,823	\$ 161,819	\$ 223,247	\$ 1,413,889

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

Town of Rich Square
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Position
June 30, 2019
Exhibit 3

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

Total fund balances - governmental funds	\$	1,310,794
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	948,574	
Accumulated depreciation	<u>(380,912)</u>	567,662
Deferred outflows of resources related to pensions are not reported in the funds		35,531
Earned revenues considered deferred inflows of resources in the fund statements		80,129
Deferred inflows of resources related to pensions are not reported in the funds		(6,030)
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds		
Net pension liability and total pension liability		(56,869)
Other long-term liabilities are not due and payable in the current period and therefore are not reported in the funds		(4,965)
Net position of governmental funds	\$	<u>1,926,252</u>

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

Town of Rich Square
Statement of Revenues, Expenditures, and Changes
In Fund Balance – Governmental Funds
For the Year Ended June 30, 2019
Exhibit 4

	Major Funds			Total Governmental Funds
	General	Grant Project Fund	Cemetery Fund	
REVENUES				
Ad valorem taxes	\$ 284,417	\$ -	\$ -	\$ 284,417
Other taxes and licenses	1,325	-	-	1,325
Unrestricted intergovernmental	297,297	-	-	297,297
Restricted intergovernmental	30,398	-	-	30,398
Permits and fees	18	-	-	18
Sales and services	-	-	2,725	2,725
Investment earnings	3,840	-	-	3,840
Miscellaneous	4,711	-	-	4,711
Total revenues	622,006	-	2,725	624,731
EXPENDITURES				
Current:				
General government	156,269	-	-	156,269
Public safety	124,258	-	-	124,258
Transportation	260,241	-	-	260,241
Economic development	-	39,710	-	39,710
Environmental protection	-	-	12,814	12,814
Total expenditures	540,768	39,710	12,814	593,292
Excess (deficiency) of revenues over expenditures	81,238	(39,710)	(10,089)	31,439
OTHER FINANCING SOURCES (USES)				
Transfer from other funds	-	201,529	-	201,529
Transfer to other funds	(201,529)	-	-	(201,529)
Total other financing sources (uses)	(201,529)	201,529	-	-
Net change in fund balance	(120,291)	161,819	(10,089)	31,439
Fund balances - beginning	1,046,019	-	233,336	1,279,355
Fund balances - ending	\$ 925,728	\$ 161,819	\$ 223,247	\$ 1,310,794

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

Town of Rich Square

**Reconciliation of the Statement of Revenues, Expenditures, and Changes
In Fund Balances of the Governmental Funds to the Statement of Activities**

For the Year Ended June 30, 2019

Exhibit 4

Reconciliation of the Statement of Revenues, Expenditures and Change in Fund Balances to the Statement of Activities:

Net change in fund balances - governmental funds	\$	31,439
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Capital outlay expenditures which were capitalized	88,260	
Depreciation expense for governmental assets	(30,814)	57,446
Contributions to the pension plan in the current fiscal year		9,273
<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 revenue		1,901
<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		(11,672)
<hr/>		
Total changes in net position of governmental activities	\$	88,387
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The notes to the financial statements are an integral part of this statement.

Town of Rich Square
Statement of Revenues, Expenditures and Changes
In Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2019
Exhibit 5

General Fund				
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
REVENUES				
Ad valorem taxes	\$ 251,000	\$ 284,000	\$ 284,417	\$ 417
Other taxes and licenses	1,000	1,000	1,325	325
Unrestricted intergovernmental	227,800	290,440	297,297	6,857
Restricted intergovernmental	32,000	32,000	30,398	(1,602)
Permits and fees	100	100	18	(82)
Investment earnings	100	100	3,840	3,740
Miscellaneous	-	-	4,711	4,711
Total revenues	512,000	607,640	622,006	14,366
EXPENDITURES				
Current:				
General government	126,000	161,000	156,269	4,731
Public safety	151,000	151,000	124,258	26,742
Transportation	235,000	295,640	260,241	35,399
Total expenditures	512,000	607,640	540,768	66,872
Revenues over (under) expenditures	-	-	81,238	81,238
OTHER FINANCING SOURCES (USES)				
Transfer to other funds:				
Grant Project Fund	-	-	(201,529)	(201,529)
Net change in fund balance	\$ -	\$ -	(120,291)	\$ (120,291)
Fund balances - beginning			1,046,019	
Fund balance - ending			\$ 925,728	

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

**Town of Rich Square
Statement of Net Position
Proprietary Fund
For the Year Ended June 30, 2019
Exhibit 6**

**Water and
Sewer Fund**

ASSETS	
Current assets:	
Cash and cash equivalents	\$ 388,369
Accounts receivable (net)	29,180
Restricted cash and cash equivalents	38,908
Total current assets	456,457
Noncurrent assets:	
Capital assets:	
Land and construction in progress	44,421
Capital assets, net of depreciation	5,019,298
Total capital assets	5,063,719
Total noncurrent assets	5,063,719
Total assets	5,520,176
DEFERRED OUTFLOWS OF RESOURCES	
Pension deferrals	10,244
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	397
Compensated absences	500
Customer deposits	38,908
Current portion of long-term liabilities	2,952
Total current liabilities	42,757
Noncurrent liabilities:	
Net pension liability	11,554
Compensated absences	432
Long-term debt	167,009
Total liabilities	221,752
DEFERRED INFLOWS OF RESOURCES	
Pension deferrals	1,110
NET POSITION	
Net investment in capital assets	4,893,758
Unrestricted	413,800
Total net position	\$ 5,307,558

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

Town of Rich Square
Statement of Revenues, Expenses and Changes
In Net Position – Proprietary Fund
For the Year Ended June 30, 2019
Exhibit 7

	Water and Sewer Fund
OPERATING REVENUES	
Charges for services	\$ 331,198
Other operating revenues	1,123
Total operating revenues	332,321
OPERATING EXPENSES	
Administration	79,305
Water treatment and distribution	159,522
Depreciation	151,245
Total operating expenses	390,072
Operating loss	(57,751)
NONOPERATING REVENUES (EXPENSES)	
Other nonoperating revenues	3,344
Investment earnings	971
Interest and other charges	(4,753)
Total nonoperating revenues	(438)
Loss before contributions	(58,189)
Capital contributions	39,000
Change in net position	(19,189)
Total net position, beginning	5,326,747
Total net position, ending	\$ 5,307,558

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

**Town of Rich Square
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2019
Exhibit 8**

**Water and
Sewer Fund**

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 339,344
Cash paid for goods and services	(174,826)
Cash paid to or on behalf of employees	(67,142)
Customer deposits received	1,349
Customer deposits returned	(878)
Other operating revenues	1,123
Net cash provided by operating activities	98,970
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	971
Total cash flow provided by noncapital financing activities	971
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Principal paid on bonds	(2,873)
Interest paid on bonds	(4,753)
Other receipts	3,344
Net cash used by capital and financing activities	(4,281)
Net increase in cash and cash equivalents	95,660
Balances, beginning of year	331,617
Balances, ending of year	\$ 427,277
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (57,751)
Adjustments to reconcile income to cash provided by operations:	
Depreciation	151,245
(Increase) decrease in accounts receivable	8,146
(Increase) decrease in deferred outflows of resources	(1,833)
(Increase) decrease in due from other funds	129
Increase (decrease) in accounts payable	(4,643)
Increase (decrease) in customer deposits	472
Increase (decrease) in net pension liability	2,979
Increase (decrease) in deferred inflows of resources	226
Total adjustments	156,721
Net cash provided by operating activities	\$ 98,970

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Rich Square (the “Town”) 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 is a municipal corporation that is governed by an elected mayor and a five-member council.

B. Basis of Presentation

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

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

Fund Financial Statements: The fund financial statements provide information about the Town’s funds. 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 nonmajor funds.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Town reports the following major governmental funds:

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

Grant Project Fund. This fund is used to account for the renovation of a building to be later used for economic development purposes.

Cemetery Fund. This fund is used to account for perpetual care of the municipal cemetery.

The Town reports the following major enterprise fund:

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

C. **Measurement Focus and Basis of Accounting**

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

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

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

Town of Rich Square Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Governmental Fund Financial Statements. Governmental funds are reported using a 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. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicle 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. 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 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 because the tax is levied by Northampton County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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, Cemetery Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Grant Project Fund and the enterprise capital project fund. The enterprise capital project fund is consolidated with the respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. 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.

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

2. Cash and Cash Equivalents

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

Town of Rich Square
Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Unexpended grant revenues held in the Grant Project Fund are classified as restricted assets because their use is restricted to the intended purpose of the grant. Also, Powell Bill funds are classified as restricted cash because it can only be used for the purposes outlined in G.S. 136-41.1 through 136-41.4.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 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.

5. Allowances for Doubtful Accounts

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

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$1,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$1,000; furniture and equipment, \$1,000; and vehicles, \$1,000. 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, 2003, 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 assets' lives are not capitalized.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

6. Capital Assets (continued)

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	30
Furniture and equipment	10
Improvements	20
Infrastructure	50
Vehicles	10

7. 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 in the 2019 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meets the criterion for this category- property taxes receivable and pension deferrals.

8. 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, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

9. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

10. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Perpetual Maintenance – Cemetery resources which are required to be retained in perpetuity for maintenance of the Cemetery in the Town of Rich Square.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

10. Net Position/Fund Balances (continued)

Restricted Fund Balance – This classification includes amount 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 [G.S. Chapter 159, Article 3, Part 2].

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

The Town 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.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

11. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Rich Square's employer contributions are recognized when due and the Town of Rich Square 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.

12. Use of Estimates

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

13. Adoption of New Financial Accounting Standards

In fiscal year 2019, the entity adopted the following financial accounting standards issued by the GASB:

GASB Statement No. 83, Certain Asset Retirement Obligations ("GASB 83"), requires that a government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability. GASB 83 is effective for fiscal years beginning after June 15, 2018. Currently, this new standard has minimal effect on the Town's financial statements.

GASB Statement No. 85, Omnibus 2017 ("GASB 85"), seeks to address practice issues that have been identified during implementation and application of certain GASB Statements. This statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). GASB 85 is effective for fiscal years beginning after June 15, 2017. Currently, this new standard has minimal effect on the Town's financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

13. Adoption of New Financial Accounting Standards

GASB Statement No. 86, Certain Debt Extinguishment Issues (“GASB 86”), seeks to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. GASB 86 is effective for fiscal years beginning after June 15, 2017. Currently, this new standard has minimal effect on the Town’s financial statements.

GASB Statement No. 88, Certain Disclosures Related to Debt (“GASB 88”), seeks to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. GASB 88 is effective for fiscal years beginning after June 15, 2018. Currently, this new standard has minimal effect on the Town’s financial statements.

14. Future Accounting Pronouncements – Accounting Standards Issued but Not Yet Effective

GASB Statement No. 84, Fiduciary Activities (“GASB 84”), seeks to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported. GASB 84 will be effective for the fiscal years beginning after December 15, 2018. The Town is reviewing this standard to determine the effect on the Town’s financial statements.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

14. Future Accounting Pronouncements – Accounting Standards Issued but Not Yet Effective
(continued)

GASB Statement No. 87, Leases (“GASB 87”), seeks to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. GASB 87 will be effective for the fiscal years beginning after December 15, 2019. The Town is reviewing this standard to determine the effect on the Town's financial statements.

GASB Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period (“GASB 89”), seeks to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. This statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5-22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this statement. This statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this statement are effective for reporting periods beginning after December 15, 2019. The Town is reviewing this standard to determine the effect on the Town's financial statements.

NOTE 2 STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Excess of Expenditure over Appropriations

For the fiscal year ended June 30, 2019, the expenditures made in the Cemetery Fund exceeded the authorized appropriations made by the governing board for environmental protection by \$6,814. The over-expenditure occurred due to unplanned increases in maintenance and supply expenses. Management and the Board will more closely review the budget reports to ensure compliance in future years.

B. Noncompliance with North Carolina General Statutes

The Town is in violation of G.S. 159-13.2(c). State law requires the project ordinance to be adopted before any money is spent. The Town expended funds in the Grant Project Fund prior before the project ordinance was adopted by the board.

The Town is in violation of G.S. 159-13(a). State law requires all transfers between funds to be properly budgeted and authorized by the governing board. The Town transferred money from the General Fund to the Grant Project Fund for prior year grant funds received that were not properly budgeted.

NOTE 3 DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

**Town of Rich Square
Notes to Financial Statements**

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

A. Assets

1. Deposits (continued)

The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly insured.

At June 30, 2019, the Town's deposits had a carrying amount of \$1,691,366 and a bank balance of \$1,715,947. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2019, the Town's petty cash fund totaled \$50.

2. Receivables - Allowances for Doubtful Accounts

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

General Fund:	
Taxes receivable	\$ 33,526
Enterprise Fund:	
Water and sewer accounts receivable	8,773
Total	\$ 42,299

**Town of Rich Square
Notes to Financial Statements**

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

3. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 72,930	\$ -	\$ -	\$ 72,930
Construction in Progress	-	39,710	-	39,710
Total capital assets not being depreciated	72,930	39,710	-	112,640
Capital assets being depreciated:				
Buildings	397,925	-	-	397,925
Other improvements	111,142	48,550	-	159,692
Equipment	219,260	-	-	219,260
Vehicles	59,057	-	-	59,057
Total capital assets being depreciated	787,384	48,550	-	835,934
Less accumulated depreciation for:				
Buildings	94,967	10,556	-	105,523
Other improvements	66,623	3,242	-	69,865
Equipment	152,642	11,588	-	164,230
Vehicles	35,866	5,428	-	41,294
Total accumulated depreciation	350,098	30,814	-	380,912
Total capital assets being depreciated, net	<u>437,286</u>			<u>455,022</u>
Governmental activities capital assets net	<u>\$ 510,216</u>			<u>\$ 567,662</u>

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

General government	\$ 18,215
Public safety	5,787
Transportation	<u>6,812</u>
Total depreciation expense	<u>\$ 30,814</u>

**Town of Rich Square
Notes to Financial Statements**

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

3. Capital Assets (continued)

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 5,421	\$ -	\$ -	\$ 5,421
Construction in progress	-	39,000	-	39,000
Total capital assets not being depreciated	5,421	39,000	-	44,421
Capital assets being depreciated:				
Buildings	1,663	-	-	1,663
Plant and distribution system	6,929,761	-	-	6,929,761
Machinery and equipment	124,398	-	-	124,398
Office equipment	20,311	-	-	20,311
Vehicles	6,500	-	-	6,500
Total capital assets being depreciated	7,082,633	-	-	7,082,633
Less accumulated depreciation for:				
Buildings	1,663	-	-	1,663
Plant and distribution system	1,842,124	138,595	-	1,980,719
Machinery and equipment	57,930	7,936	-	65,866
Office equipment	6,206	4,014	-	10,220
Vehicles	4,167	700	-	4,867
Total accumulated depreciation	1,912,090	151,245	-	2,063,335
Total capital assets being depreciated, net	<u>5,170,543</u>			<u>5,019,298</u>
Business-type activities capital assets net	<u>\$ 5,175,964</u>			<u>\$ 5,063,719</u>

Construction Commitments

The Town has active construction projects as of June 30, 2019. At year end, the Town's commitments with contractors are as follows:

Project	Spent to Date	Remaining Amount
Building renovation	\$ 39,710	\$ 161,819

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

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

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.

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

a. Local Governmental Employees' Retirement System (continued)

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 Rich Square 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 Rich Square's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.75% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Rich Square were \$13,029 for the year ended June 30, 2019.

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

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

At June 30, 2019, the Town reported a liability of \$57,173 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 0.00241%, which was a decrease of 0.00042% from its proportion measured as of June 30, 2017.

**Town of Rich Square
Notes to Financial Statements**

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

a. Local Governmental Employees' Retirement System (continued)

For the year ended June 30, 2019, the Town recognized pension expense of \$15,541. 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	\$ 8,821	\$ 296
Changes of assumptions	15,172	-
Net difference between projected and actual earnings on pension plan investments	7,848	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	263	5,198
Town contributions subsequent to the measurement date	13,029	-
Total	\$ 45,133	\$ 5,494

\$13,029 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2020	\$	13,697
2021		8,566
2022		318
2023		4,029
2024		-
Thereafter		-
Total	\$	26,610

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

a. Local Governmental Employees' Retirement System (continued)

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

Inflation	3.00 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 Rich Square
Notes to Financial Statements**

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

a. Local Governmental Employees' Retirement System (continued)

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

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

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

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

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 137,336	\$ 57,173	\$ (9,811)

**Town of Rich Square
Notes to Financial Statements**

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

a. Local Governmental Employees' Retirement System (continued)

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

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description.* The Town of Rich Square administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85% 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:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>1</u>
Total	<u><u>1</u></u>

2. *Summary of Significant Accounting Policies*

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

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

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

b. Law Enforcement Officers Special Separation Allowance (continued)

3. *Actuarial Assumptions*

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

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

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

Mortality rates are based on the RP-2000 Mortality table 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. There were no contributions made or required by the Town during the fiscal year.

**Town of Rich Square
Notes to Financial Statements**

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

b. Law Enforcement Officers Special Separation Allowance (continued)

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

At June 30, 2019, the Town reported a total pension liability of \$11,250. 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 \$1,260.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 1,312
Changes of assumptions and other inputs	642	334
Benefit payments and administrative expenses subsequent to the measurement date.	-	-
Total	\$ 642	\$ 1,646

None of the benefits or expenses have been paid subsequent to the measurement date. Other amounts reported as deferred outflow of resources will be recognized in pension expense as follows:

Year ended June 30:		
2020	\$	(153)
2021		(153)
2022		(153)
2023		(153)
2024		(153)
Thereafter		(239)
Total	\$	(1,004)

**Town of Rich Square
Notes to Financial Statements**

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

b. Law Enforcement Officers Special Separation Allowance (continued)

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

	1% Decrease (2.64%)	Discount Rate (3.64%)	1% Increase (4.64%)
Total pension liability	\$ 12,071	\$ 11,250	\$ 10,463

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

	2019
Beginning balance	\$ 11,759
Service cost	1,041
Interest on the total pension liability	372
Changes in benefit terms	-
Difference between expected and actual experience in the measurement of the total pension liability	(1,532)
Changes in assumptions or other inputs	(390)
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	\$ 11,250

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.

**Town of Rich Square
Notes to Financial Statements**

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

b. Law Enforcement Officers Special Separation Allowance (continued)

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

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

	LGERS	LEOSSA	Total
Pension Expense	\$ 15,541	\$ 1,260	\$ 16,801
Pension Liability	57,173	11,250	68,423
Proportionate share of the net pension liability	0.00241%	n/a	
Deferred Outflows of Resources			
Differences between expected and actual experience	8,821	-	8,821
Changes of assumptions	15,172	642	15,814
Net difference between projected and actual earnings on pension plan investments	7,848	-	7,848
Changes in proportion and differences between Town contributions and proportionate share of contributions	263	-	263
Town contributions subsequent to the measurement date	13,029	-	13,029
Deffered Inflows of Resources			
Differences between expected and actual experience	296	1,312	1,608
Changes of assumptions	-	334	334
Changes in proportion and differences between Town contributions and proportionate share of contributions	5,198	-	5,198

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

c. Supplemental Retirement Income Plan for Law Enforcement Officers (continued)

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% 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 \$2,521, which consisted of \$2,521 from the Town and \$0 from the law enforcement officers.

d. Other Employment Benefits

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

Town of Rich Square
Notes to Financial Statements

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

2. Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources at June 30, 2019 is comprised of the following:

Differences between expected and actual experience	\$ 8,821
Changes of assumptions	15,814
Net difference between projected and actual earnings on pension plan investments	7,848
Changes in proportion and differences between Town contributions and proportionate share of contributions	263
Town contributions subsequent to the measurement date	13,029
Total	\$ 45,775

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

Source	Statement of Net Position	General Fund Balance Sheet
Differences between expected and actual experience	\$ 1,608	\$ -
Changes of assumptions	334	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	5,198	-
Taxes receivable, less penalties (General Fund)	-	80,129
Total	\$ 7,140	\$ 80,129

3. 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 two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains workers' compensation coverage up to the statutory limits, and employee health coverage up to \$1 million lifetime limit. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request. The pools are reinsured through commercial companies for single occurrence claims in excess of \$250,000 up to \$5 million for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000.

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

**Town of Rich Square
Notes to Financial Statements**

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

3. Risk Management (continued)

In accordance with G.S. 159-29, the Town’s employees who have access to \$100 or more at any given time of the Town’s funds are performance bonded through a commercial surety bond. The finance officer is individually bonded for \$50,000; the Town Clerk is bonded for \$25,000.

The Town does not carry flood insurance.

4. Long-Term Obligations

a. Installment Purchase – Direct Placement

In July 2014, the Town entered into a \$181,000 direct placement installment purchase agreement with United States Department of Agriculture to finance the construction of water and sewer improvements. The property is pledged as collateral for the debt while the debt is outstanding. The financing contract requires annual principal payments of \$7,626, including interest of 2.75% paid annually.

Year Ending June 30	Business-type activities	
	Principal	Interest
2020	\$ 2,952	\$ 4,674
2021	3,033	4,593
2022	3,117	4,509
2023	3,202	4,424
2024	3,290	4,336
2025-2029	17,860	20,270
2030-2034	20,455	17,675
2035-2039	23,427	14,703
2040-2044	26,830	11,300
2045-2049	30,727	7,403
2050-2054	35,068	3,063
Total	\$ 169,961	\$ 96,950

Installment purchase obligations from direct borrowings in the amount of \$169,961 include a provision that if the Town is determined to be in default, the full amount of the obligations could become due immediately, at the discretion of the lender.

**Town of Rich Square
Notes to Financial Statements**

NOTE 3 DETAIL NOTES ON ALL FUNDS (continued)

b. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Net pension liability (LGERS)	\$ 34,660	\$ 10,959	\$ -	\$ 45,619	\$ -
Total pension liability (LEO)	11,759	-	509	11,250	-
Compensated absences	4,965	-	-	4,965	500
Governmental long-term liabilities	\$ 51,384	\$ 10,959	\$ 509	\$ 61,834	\$ 500
Business-type activities:					
Installment purchase - direct placement	\$ 172,834	\$ -	\$ 2,873	\$ 169,961	\$ 2,952
Compensated absences	932	-	-	932	500
Net pension liability (LGERS)	8,575	2,979	-	11,554	-
Business-type long-term liabilities	\$ 181,409	\$ 2,979	\$ 2,873	\$ 181,515	\$ 3,452

c. Fund Balance

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

Total Fund Balance - General Fund	\$ 925,728
Less:	
Stabilization by State Statute	69,621
Streets - Powell Bill	4,284
Remaining Fund Balance	\$ 851,823

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 moneys 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 moneys.

NOTE 5 SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 23, 2020, the date on which the financial statements were available to be issued.

**Town of Rich Square
Town's Proportionate Share of Net Pension Liability (Asset)
Local Government Employees' Retirement System
Required Supplementary Information
Last Six Fiscal Years ***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Rich Square's proportion of the net pension liability (asset) (%)	0.00241%	0.00283%	0.00329%	0.00295%	0.00299%	0.0024%
Rich Square's proportion of the net pension liability (asset) (\$)	\$ 57,173	\$ 43,235	\$ 69,825	\$ 13,239	\$ (17,634)	\$ 28,929
Rich Square's covered payroll	\$ 177,991	\$ 171,369	\$ 174,892	\$ 225,502	\$ 226,940	\$ 214,184
Rich Square's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	32.12%	25.23%	39.92%	5.87%	-7.77%	13.51%
Plan fiduciary net position as a percentage of the total pension liability **	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30. All information available for reporting under current GASB codification is presented. As information becomes available, it will be included in the above table.

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

**Town of Rich Square
Schedule of Contributions
Local Government Employees' Retirement System
Required Supplementary Information
Last Six Fiscal Years ***

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 13,029	\$ 12,997	\$ 12,109	\$ 12,021	\$ 15,877	\$ 15,910
Contributions in relation to the contractually required required contributions	<u>13,029</u>	<u>12,997</u>	<u>12,109</u>	<u>12,021</u>	<u>15,877</u>	<u>15,910</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Rich Square's covered-employee payroll	\$ 163,236	\$ 177,991	\$ 171,369	\$ 174,892	\$ 225,502	\$ 226,940
Contributions as a percentage of covered employee payroll	7.98%	7.30%	7.07%	6.87%	7.04%	7.01%

* All information available for reporting under current GASB codification is presented. As information becomes available, it will be included in the above table.

Town of Rich Square
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2019

	<u>2019</u>	<u>2018</u>
Beginning balance	\$ 11,759	\$ 9,449
Service Cost	1,041	1,058
Interest on the total pension liability	372	365
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(1,532)	-
Changes of assumptions or other inputs	(390)	887
Benefit payments	-	-
Other changes	-	-
Ending balance of the total pension liability	<u>\$ 11,250</u>	<u>\$ 11,759</u>

Notes to the schedule:

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

*As information becomes available, the Town will present the ten most current fiscal year data.

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

Town of Rich Square
Schedule of Changes in Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2019

	<u>2019</u>	<u>2018</u>
Total pension liability	\$ 11,250	\$ 11,759
Covered payroll	54,821	62,023
Total pension liability as a percentage of covered payroll	20.52%	18.96%

Notes to the schedule:

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

* As information becomes available, the Town will present the ten most current fiscal year data

Town of Rich Square
Schedule of Revenues, Expenditures, and Changes
In Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes			
Taxes		\$ 280,021	
Penalties and interest		4,396	
Total	\$ 284,000	284,417	\$ 417
Other taxes and licenses			
Privilege licenses	1,000	1,325	325
Unrestricted intergovernmental			
Local option sales tax		223,411	
Utility franchise tax		63,675	
Beer and wine tax		4,048	
Tax refnds		6,163	
Total	290,440	297,297	6,857
Restricted intergovernmental			
Powell Bill allocation		30,398	
Total	32,000	30,398	(1,602)
Permits and fees			
Court costs and fees	100	18	(82)
Investment earnings	100	3,840	3,740
Miscellaneous	-	4,711	4,711
Total revenues	607,640	622,006	14,366

Town of Rich Square
Schedule of Revenues, Expenditures, and Changes
In Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES			
General government			
Administration			
Salaries and benefits		97,277	
Telephone and postage		2,206	
Supplies and printing		1,420	
Dues		2,552	
Repairs and maintenance		15,376	
Collection fees		9,617	
Professional fees		25,596	
Other expenditures		2,225	
Total general government	161,000	156,269	4,731
Public safety			
Police			
Salaries and benefits		88,955	
Repairs and maintenance		4,041	
Computer support		5,077	
Departmental supplies		8,699	
Uniforms		2,121	
Telephone and utilities		4,223	
Other expenditures		6,942	
Total	148,000	120,058	27,942
Fire department			
Annual allocation	3,000	4,200	(1,200)
Total public safety	151,000	124,258	26,742

Town of Rich Square
Schedule of Revenues, Expenditures, and Changes
In Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
Transportation			
Salaries and benefits		74,102	
Utilities		42,788	
Repairs and maintenance		3,459	
Departmental supplies		22,893	
Solid waste fees		5,042	
Insurance		33,288	
Uniforms		1,165	
Capital outlay		48,550	
Powell Bill		28,954	
Total transportation	295,640	260,241	35,399
Total expenditures	607,640	540,768	66,872
Revenues over (under) expenditures	-	81,238	81,238
OTHER FINANCING SOURCES (USES)			
Transfer to Grant Project Fund	-	(201,529)	(201,529)
Net change in fund balance	\$ -	(120,291)	\$ (120,291)
Fund balance, beginning		1,046,019	
Fund balance, ending		\$ 925,728	

Town of Rich Square
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
Cemetery Fund
For the Year Ended June 30, 2019

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Sales and service			
Cemetery plot sales	\$ 6,000	\$ 2,725	\$ (3,275)
EXPENDITURES			
Environmental protection			
Maintenance	6,000	12,814	(6,814)
Total environmental protection	6,000	12,814	(6,814)
Revenues over (under) expenditures	\$ -	(10,089)	\$ (10,089)
Fund balance, beginning		<u>233,336</u>	
Fund balance, ending		<u>\$ 223,247</u>	

Town of Rich Square
Schedule of Revenues, Expenditures and Changes
In Fund Balances - Budget and Actual
Grant Project Fund
From Inception and For the Year Ended June 30, 2019

	Project Authorization	Prior Year	Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Restricted intergovernmental:					
Grant revenue	\$ -	\$ -	\$ -	\$ -	\$ -
Total revenues	-	-	-	-	-
EXPENDITURES					
Economic development					
Construction		-	39,710	39,710	(39,710)
Total economic development	-	-	39,710	39,710	(39,710)
Revenues under expenditures	-	-	(39,710)	(39,710)	39,710
OTHER FINANCING SOURCES					
Transfer from General Fund			201,529	201,529	201,529
Net change in fund balance	\$ -	\$ -	\$ 161,819	161,819	\$ 161,819
Fund balance, beginning				-	
Fund balance, ending				\$ 161,819	

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

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Operating revenues			
Charges for services		\$ 331,198	
Other operating revenues		1,123	
Total	\$ 336,679	332,321	\$ (4,358)
Nonoperating revenues			
Investment earnings		971	
Other nonoperating revenues		3,344	
Total	6,000	4,315	(1,685)
Total revenues	342,679	336,636	(6,043)
EXPENDITURES			
Administration			
Salaries and benefits		67,142	
Postage and telephone		6,171	
Computer support		4,619	
Total	111,000	77,932	33,068
Water and sewer treatment and distribution			
Water and sewer test		17,961	
Utilities		41,907	
Supplies and materials		58,558	
Repairs and maintenance		29,255	
Solid waste disposal		3,083	
Lagoon expense		664	
Permits		2,517	
Miscellaneous		5,577	
Total	223,679	159,522	64,157

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

	Budget	Actual	Variance Positive (Negative)
Debt service			
Principal		2,873	
Interest		4,753	
Total	8,000	7,626	374
Total expenditures	342,679	245,080	97,599
Revenues over (under) expenditures	\$ -	91,556	\$ 91,556

Reconciliation from budgetary basis to
full accrual:

Reconciling items:

Capital contributions from capital project fund	39,000
Debt principal	2,873
Increase in deferred outflows of resources - pensions	1,833
Increase in net pension liability	(2,979)
Increase in deferred inflows of resources - pensions	(228)
Depreciation	(151,245)
Total reconciling items	(110,746)
Change in net position	\$ (19,190)

Town of Rich Square
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
Water and Sewer Capital Project Fund
From Inception and For the Year Ended June 30, 2019

	Project Authorization	Prior Year	Current Year	Total to Date	Variance Positive (Negative)
REVENUES					
Restricted intergovernmental:					
Grant revenue	\$ 1,266,971	\$ -	39,000	\$ 39,000	\$ (1,227,971)
Total revenues	1,266,971	-	39,000	39,000	(1,227,971)
EXPENDITURES					
Administration	187,125	-	39,000	39,000	148,125
Engineering	65,400	-	-	-	65,400
Surveying	59,700	-	-	-	59,700
Construction	867,950	-	-	-	867,950
Contingency	86,796	-	-	-	86,796
Total expenditures	1,266,971	-	39,000	39,000	1,227,971
Revenues over expenditures	\$ -	\$ -	\$ -	-	\$ -
Fund balance, beginning				-	
Fund balance, ending				\$ -	

**Town of Rich Square
Analysis of Current Tax Levy
Town-Wide Levy
For the Year Ended June 30, 2019**

	Property Valuation	Rate	Total Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Property taxed at current	\$ 44,688,923	0.65	\$ 290,478	\$ 252,407	\$ 38,071
Penalties	-		-	-	-
Abatements	(60,923)		(396)	(396)	-
Total property valuation	<u>\$ 44,628,000</u>				
Net levy			\$ 290,082	\$ 252,011	\$ 38,071
Uncollected taxes at June 30, 2019			25,918	25,918	-
Current year's tax collected			<u>\$ 264,164</u>	<u>\$ 226,093</u>	<u>\$ 38,071</u>
Current levy collection percentage			<u>91.07%</u>	<u>89.72%</u>	<u>100.00%</u>



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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Honorable Mayor and
Members of the Board of Aldermen
Town of Rich Square, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Rich Square, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statement, which collectively comprises the Town of Rich Square's basic financial statements, and have issued our report thereon dated April 23, 2020.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or 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 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 the internal control was for the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal controls, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. (2019-01, 2019-02, 2019-03)

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Rich Square's financial statements are free from 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 matter that are required to be reported under *Government Auditing Standards*.

Response to Findings

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

Purpose of this Report

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

Carly Riggs & Ingram, L.L.C.

April 23, 2020
New Bern, North Carolina

Town of Rich Square
Schedule of Findings and Responses
For the Year Ended June 30, 2019

FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

2019-01 Excess of Expenditures over Appropriations

Criteria: North Carolina G.S. 15-28(a) states that no obligation may be incurred in a function accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year.

Condition: For the fiscal year ended June 30, 2019, expenditures made in the Cemetery Fund exceeded the authorized appropriations made by the governing board by \$6,814.

Effect: Moneys were spent that were not properly obligated and appropriated.

Cause: The Town incurred higher operating expenses than anticipated. The budget was not omitted in a timely manner to cover these expenses.

Recommendation: The Town ordered new check stock as soon as this was noticed. The Town should also consider using a purchase order system.

View of responsible officials: The Town agrees with this finding and will review the budgets more timely to ensure compliance in future years.

**Town of Rich Square
Schedule of Findings and Responses
For the Year Ended June 30, 2019**

FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

2019-02 Project Ordinance Adoption

Criteria: North Carolina G.S. 15-13.2(c) requires all grant projects be authorized by a balanced capital project ordinance before the project is started.

Condition: The Grant Project Fund started a new project and expended funds before the project ordinance was adopted by the Board.

Effect: The Town was in violation of North Carolina General Statutes by starting a grant project and expending funds before the project ordinance was adopted by the Board.

Cause: The Town incurred expenditures prior to proper authorization by the project ordinance adopted by the Board.

Recommendation: The Town should review its policy on project ordinance adoption to ensure timely adoption in the future.

View of responsible officials: The Town agrees with this finding. The Town will monitor the budgetary process for capital projects more closely going forward.

**Town of Rich Square
Schedule of Findings and Responses
For the Year Ended June 30, 2019**

FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

2019-03 Unbudgeted Transfer

Criteria: North Carolina G.S. 159-13(a) requires all transfers between funds to be authorized and approved by a budget ordinance or project ordinance.

Condition: The General Fund made a transfer to the Grant Project Fund for grant revenues received in a prior year. This transfer was not budgeted.

Effect: The Town was in violation of North Carolina General Statutes by transferring money that was not properly authorized and approved by the Board.

Cause: The Town received grant revenues in the previous fiscal year for an upcoming capital project. The funds were transferred to the capital project fund in the current fiscal year, but the transfer was not properly budgeted.

Recommendation: The Town should monitor its budgets more closely to ensure compliance in the future.

View of responsible officials: The Town agrees with this finding. The Town will monitor its budgetary process more closely to ensure compliance in future years.