

TOWN OF RICHLANDS

RICHLANDS, NORTH CAROLINA

ANNUAL FINANCIAL REPORT

**FOR THE FISCAL YEAR ENDED
JUNE 30, 2019**

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INTRODUCTORY SECTION

- List of Principal Officials
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TOWN OF RICHLANDS, NORTH CAROLINA

BOARD OF ALDERMEN

McKinley Smith
Mayor

Kent Painter

Thompson L. Brown

Paul Conner

Kandy Koonce

Aaron Tollefsrud

ADMINISTRATION

Gregg Whitehead
Town Administrator

Doreen Putney
Town Clerk/Finance Officer

Ron Lindig
Chief – Police Department

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June 30, 2019

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WILLIAMS · SCARBOROUGH · GRAY, LLP
Certified Public Accountants

Christopher K. Williams, CPA
Steven N. Scarborough, CPA
W. Randall Gray, CPA

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order 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 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, each major fund, and the aggregate remaining fund information of the Town of Richlands, North Carolina as of June 30, 2019, and the respective changes in financial position 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.

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Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, and the Local Government Employees' Retirement System's Schedules of the proportionate Share of the Net Pension Asset (Liability) and contributions on pages 7 through 14, 47 and 48, 49 and 50, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The individual fund statements and schedules and other schedules, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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 individual fund statements and schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory information has not been subjected to the auditing procedures applied in the audit of basic financial statements, and accordingly, we do not express an opinion or provide assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2019, on our consideration of the Town of Richlands; 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 that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Richlands' internal control over financial reporting and compliance.

Williams • Scarborough • Gray, LLP

Williams • Scarborough • Gray, LLP
Jacksonville, North Carolina
November 29, 2019

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Management's Discussion and Analysis

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

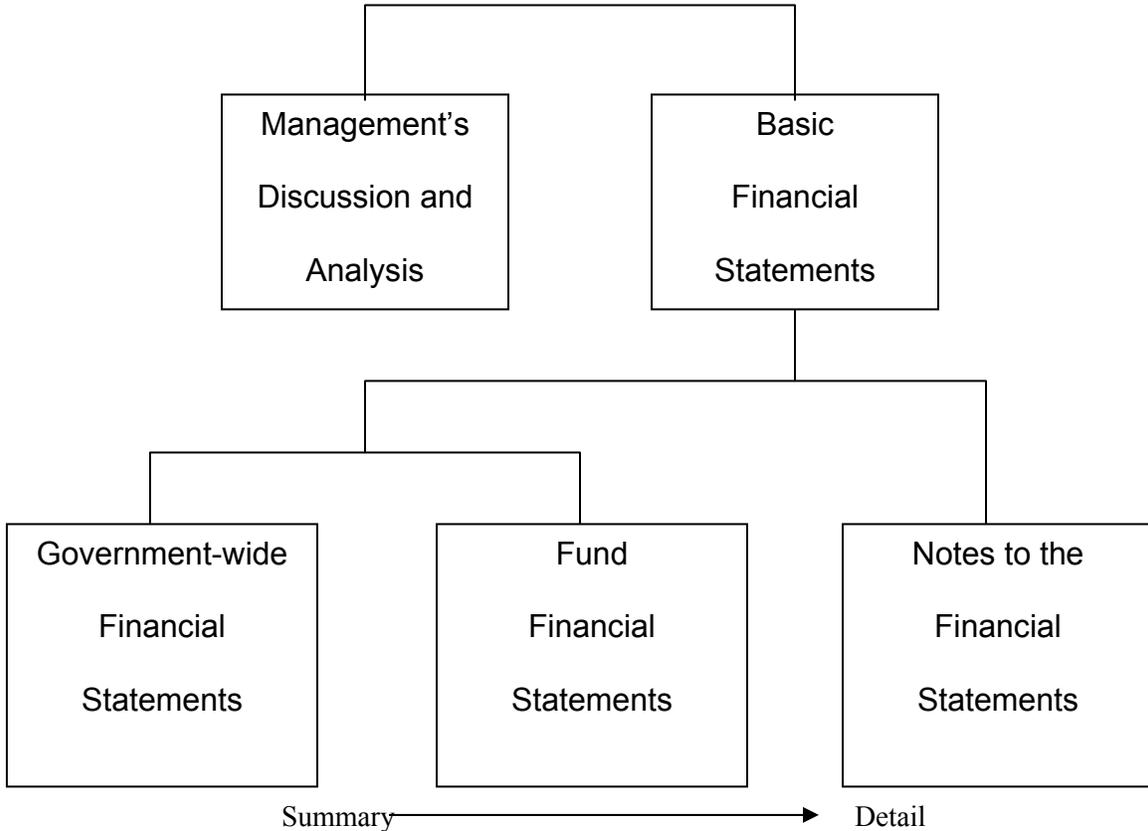
- The assets of the Town of Richlands exceeded its liabilities at the close of the fiscal year by \$1,795,646 (*net position*).
- The government's total net position decreased by \$20,626.
- As of the close of the current fiscal year, the Town of Richlands' governmental funds reported ending fund balances of \$855,101, a decrease of \$64,823 in comparison with the prior year. Approximately 72 percent of this total amount, or \$614,020, 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 \$614,020, or 38 percent of total general fund expenditures for the fiscal year.
- The Town of Richlands installment purchase debt decreased by \$26,856 during the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison statements.

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

Government-Wide Financial Statements

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

The two government-wide statements report the Town's net position and how they have changed. Net position is the difference between the Town's total assets 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) business-type activities. The governmental activities include most of the Town's basic services such as public safety, streets, 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. The Town of Richlands does not currently provide services that are considered business-type activities.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Richlands, 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 Town of Richlands can be divided into two categories: governmental funds and proprietary funds.

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

The Town of Richlands adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format,

Management Discussion and Analysis
Town of Richlands

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 – Town of Richlands has no proprietary funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements.

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 25 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain other required schedules concerning the Town of Richlands. The other schedules can be found beginning on page 47 of this report.

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

Government-Wide Financial Analysis

**Town of Richlands Net Position
Figure 2**

| | Governmental Activities | |
|---|--------------------------------|--------------|
| | 2019 | 2018 |
| Current and other assets | \$ 1,025,286 | \$ 984,157 |
| Capital assets | 1,144,186 | 1,152,928 |
| Deferred outflows of resources | 186,619 | 114,470 |
| Total assets and deferred outflows of resources | 2,356,091 | 2,251,555 |
| Long-term liabilities outstanding | 400,677 | 328,257 |
| Other liabilities | 148,623 | 84,960 |
| Deferred inflows of resources | 11,145 | 22,066 |
| Total liabilities and deferred inflows of resources | 560,445 | 435,283 |
| Net position: | | |
| Invested in capital assets, net of related debt | 1,087,868 | 1,095,052 |
| Restricted | 209,081 | 71,908 |
| Unrestricted | 498,697 | 649,312 |
| Total net position | \$ 1,795,646 | \$ 1,816,272 |

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Richlands exceeded liabilities and deferred inflows by

Management Discussion and Analysis
Town of Richlands

\$1,795,646 as of June 30, 2019. The Town's net position decreased by \$20,626 for the fiscal year ended June 30, 2019. The largest portion of net position (61%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Richlands uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Richlands' 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, \$209,081, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$498,697 is unrestricted.

Town of Richlands Changes in Net Position
Figure 3

| | Governmental Activities | |
|--|--------------------------------|---------------------|
| | 2019 | 2018 |
| Revenues: | | |
| Program revenues: | | |
| Charges for services | \$ 226,864 | \$ 225,302 |
| Operating grants and contributions | 240,658 | 53,216 |
| Capital grants and contributions | 12,810 | - |
| General revenues: | | |
| Property taxes | 586,882 | 587,057 |
| Grants and contributions not restricted to specific programs | 520,683 | 490,305 |
| Other | 18,042 | 15,837 |
| Total revenues | <u>1,605,939</u> | <u>1,371,717</u> |
| Expenses: | | |
| General government | 372,279 | 377,950 |
| Public safety | 572,291 | 558,068 |
| Highways/streets and sanitation | 676,205 | 481,857 |
| Interest on long-term debt | 5,790 | 6,532 |
| Total expenses | <u>1,626,565</u> | <u>1,424,407</u> |
| Increase (decrease) in net position | (20,626) | (52,690) |
| Net position, July 1, previously reported | 1,816,272 | 1,868,962 |
| Restatement | <u>-</u> | <u>-</u> |
| Net position, July 1, restated | <u>1,816,272</u> | <u>1,868,962</u> |
| Net position, June 30 | <u>\$ 1,795,646</u> | <u>\$ 1,816,272</u> |

The Town experienced a decrease in net position in the current year, due to a slight decrease in revenue coupled with increases in public safety and streets and sanitation expenditures.

Governmental activities. Governmental activities decreased the Town's net position by \$64,823, thereby accounting for 100% of the total increase in the net position of the Town of Richlands.

Business-type activities: There was no business-type activity in the current year.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Richlands' governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Richlands' financing requirements. Specifically, unassigned 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 Richlands. At the end of the current fiscal year, the Town of Richlands fund balance available in the General Fund was \$614,020, while total fund balance was \$855,101. The Town currently has an available fund balance of 38% of total General Fund expenditures, while total fund balance represents 53% of that same amount.

At June 30, 2019, the governmental funds of Town of Richlands reported a combined fund balance of \$855,101, a 7 percent decrease over last year.

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.

Actual revenues were in line with budget expectations. Various budget amendments were made throughout the year to adjust for salary overtime expenses, hurricane damage expenses and to adjust for other miscellaneous expenditures.

Proprietary Funds. The Town of Richlands had no proprietary funds in the current year.

Capital Asset and Debt Administration

Capital assets. The Town of Richlands' investment in capital assets for its governmental activities as of June 30, 2019, totals \$1,144,186 (net of accumulated depreciation). These assets include buildings, construction in progress, land, machinery and equipment, park facilities, and vehicles.

During the year, the Town purchased a new a/c unit for the town hall, Christmas decorations for the Town, and began a roof replacement project for the community center.

**Town of Richlands' Capital Assets
(net of depreciation)**

Figure 4

| | Governmental Activities | |
|----------------------------------|--------------------------------|---------------------|
| | 2019 | 2018 |
| Land | \$ 365,899 | \$ 365,898 |
| Construction in progress | 53,430 | 5,465 |
| Buildings and infrastructure | 675,144 | 703,125 |
| Machinery and equipment | 28,779 | 40,253 |
| Vehicles and motorized equipment | 20,934 | 38,187 |
| Total | <u>\$ 1,144,186</u> | <u>\$ 1,152,928</u> |

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

Long-term Debt. As of June 30, 2019, the Town of Richlands had total debt outstanding of \$157,519. The Town's debt represents installment purchases for government activities.

The Town of Richlands' total debt decreased by \$26,856 (15%) during the past fiscal year. This decrease is attributed to scheduled principal payments.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Richlands is \$11,134,314.

Economic Factors and Next Year's Budgets and Rates

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

- The 2010 Census established a residential population in Richlands of 1,520. The 2019 population estimate for Richlands is 1,809, which reflects a growth rate of 19%. Though these figures reflect consistent residential growth since 2010, the residential market for new housing construction has been lower in recent years.
- The recent completion of 1 million gallon regional waste water treatment plant adjacent to Richlands should help remove environmental barriers to new development in town.
- The Town does not have a significant manufacturing or industrial base. However, the addition of a major big box retailer located within a quarter mile of Richlands should improve the small business development in town.
- Low unemployment. The Town of Richlands is too small to be statistically categorized in unemployment figures. However, the Onslow County unemployment rate of 4.4% is within the statistical margin of the State average of 4.1%.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities: The Town does not expect and significant changes in revenue in relation to the prior year and is budgeting a decrease in revenue of about 7% to \$1,433,800.

Budgeted expenditures in the General Fund are expected to decrease approximately 9%.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Gregg Whitehead, Town Administrator, PO Box 245, Richlands, NC 28574.

**BASIC
FINANCIAL STATEMENTS**

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Town of Richlands, North Carolina
STATEMENT OF NET POSITION
June 30, 2019

| | <u>Primary Government</u> <u>Governmental Activities</u> |
|---|---|
| ASSETS | |
| Current assets: | |
| Cash and cash equivalents | \$ 714,742 |
| Restricted cash | 499 |
| Taxes receivables (net) | 11,922 |
| Accrued interest receivable on taxes | 3,600 |
| Accounts receivable (net) | 107,298 |
| Due from other governments | <u>187,225</u> |
| Total current assets | 1,025,286 |
| Non-current assets: | |
| Capital assets: | |
| Land | 365,898 |
| Construction in progress | 53,430 |
| Other capital assets, net of depreciation | <u>724,858</u> |
| Total capital assets | <u>1,144,186</u> |
| Total assets | <u>\$ 2,169,472</u> |
| DEFERRED OUTFLOWS OF RESOURCES | <u>\$ 186,619</u> |
| LIABILITIES | |
| Current liabilities: | |
| Accounts payable | \$ 68,722 |
| Compensated absences | 52,912 |
| Current portion of long-term liabilities | <u>26,989</u> |
| Total current liabilities | 148,623 |
| Long-term liabilities: | |
| Net pension liability | 234,625 |
| Total pension liability | 35,522 |
| Due in more than one year | <u>130,530</u> |
| Total liabilities | <u>\$ 549,300</u> |
| DEFERRED INFLOWS OF RESOURCES | <u>\$ 11,145</u> |
| NET POSITION | |
| Net investment in capital assets | \$ 1,087,868 |
| Restricted for: | |
| Stabilization by State Statute | 208,582 |
| Streets | 499 |
| Unrestricted | <u>498,697</u> |
| Total net position | <u>\$ 1,795,646</u> |

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

Town of Richlands, North Carolina
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2019

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | |
|--|------------------|-----------------------------|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Primary government: | | | | |
| Governmental Activities: | | | | |
| General government | \$ 372,279 | \$ 46,233 | \$ - | \$ 12,810 |
| Public safety | 572,291 | 19,547 | 187,820 | - |
| Streets and sanitation | 676,205 | 161,084 | 52,838 | - |
| Interest on long-term debt | <u>5,790</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Total primary government | <u>1,626,565</u> | <u>226,864</u> | <u>240,658</u> | <u>12,810</u> |
| General revenues: | | | | |
| Taxes: | | | | |
| Property taxes, levied for general purpose | | | | |
| Other taxes | | | | |
| Grants and contributions not restricted to specific programs | | | | |
| Investment earnings | | | | |
| Miscellaneous | | | | |
| Total general revenues, special items, and transfers | | | | |
| Change in net position | | | | |
| Net position-beginning, restated | | | | |
| Net position-ending | | | | |

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

| Net (Expense) Revenue and Changes in Net Position | |
|--|---------------------|
| Primary Government | |
| Governmental | |
| Activities | Total |
| \$ (313,236) | \$ (313,236) |
| (364,924) | (364,924) |
| (462,283) | (462,283) |
| <u>(5,790)</u> | <u>(5,790)</u> |
| <u>(1,146,233)</u> | <u>(1,146,233)</u> |
| 586,882 | 586,882 |
| 328,329 | 328,329 |
| 192,354 | 192,354 |
| 3,819 | 3,819 |
| <u>14,223</u> | <u>14,223</u> |
| <u>1,125,607</u> | <u>1,125,607</u> |
| (20,626) | (20,626) |
| <u>1,816,272</u> | <u>1,816,272</u> |
| <u>\$ 1,795,646</u> | <u>\$ 1,795,646</u> |

Town of Richlands, North Carolina
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2019

| | General Fund |
|---|---------------------|
| ASSETS | |
| Cash and cash equivalents | \$ 714,742 |
| Restricted cash | 499 |
| Receivables, net: | |
| Taxes | 11,922 |
| Accounts receivable, net | 107,298 |
| Due from other governments | 187,225 |
| Total assets | \$ 1,021,686 |
| LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES | |
| Liabilities: | |
| Accounts payable and accrued liabilities | \$ 68,722 |
| Total liabilities | 68,722 |
| Deferred inflows of resources: | |
| Property taxes receivable | 11,922 |
| Franchise/Telecom taxes receivable | 29,527 |
| Due from other governments | 56,414 |
| Total deferred inflows of resources | 97,863 |
| Fund balances: | |
| Restricted | |
| Stabilization by State Statute | 208,582 |
| Streets | 499 |
| Assigned - subsequent year's expenditures | 32,000 |
| Unassigned | 614,020 |
| Total fund balances | 855,101 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 1,021,686 |
| Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because: | |
| Accrued interest receivable on taxes recorded on net assets but not on fund statements. | 3,600 |
| Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. | 1,144,186 |
| Net pensions liability is not a financial use and therefore is not reported in the fund | (234,625) |
| Total pensions liability is not a financial use and therefore is not reported in the fund | (35,522) |
| Contributions to the pension plan in current fiscal year and other pension related items shown as deferred outflows of resources on the Statement of Net Position | 186,619 |
| Liabilities for earned but deferred inflows of resources in fund statements. | 97,863 |
| Pension related deferrals | (11,145) |
| Some liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | (210,431) |
| Net position of governmental activities | \$ 1,795,646 |

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

Town of Richlands, North Carolina
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2019

| | General Fund |
|-----------------------------------|---------------------|
| REVENUES | |
| Ad valorem taxes | \$ 583,062 |
| Unrestricted intergovernmental | 521,231 |
| Restricted intergovernmental | 197,054 |
| Permits and fees | 3,940 |
| Sales and services | 218,167 |
| Investment earnings | 3,819 |
| Miscellaneous | 18,980 |
| Total revenues | 1,546,253 |
| EXPENDITURES | |
| Current: | |
| General government | 397,315 |
| Public safety | 532,015 |
| Streets and sanitation | 649,100 |
| Debt service: | |
| Principal | 26,856 |
| Interest and other charges | 5,790 |
| Total expenditures | 1,611,076 |
| Net change in fund balance | (64,823) |
| Fund balances - beginning of year | 919,924 |
| Fund balances - end of year | \$ 855,101 |

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

Town of Richlands, North Carolina
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2019

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

| | | |
|--|----|----------|
| Net changes in fund balances - governmental funds | \$ | (64,823) |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | | (8,742) |
| Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities | | 48,504 |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. | | |
| Change in unavailable revenue for tax revenues | | 3,272 |
| Change in unavailable revenue for amounts due from other government: | | 56,414 |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. | | 26,856 |
| 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. | | |
| Pension expense | | (68,516) |
| Net pension obligation (LEO) | | (7,175) |
| Compensated absences | | (6,416) |
| | | (20,626) |
| Total changes in net position of governmental activities | \$ | (20,626) |

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

Town of Richlands, North Carolina
GENERAL FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2019

| | General Fund | | | Variance with Final Budget - Positive (Negative) |
|---------------------------------------|---------------------|------------------|-----------------------|---|
| | Original | Final | Actual Amounts | |
| REVENUES | | | | |
| Ad valorem taxes | \$ 580,000 | \$ 580,000 | \$ 583,062 | \$ 3,062 |
| Unrestricted intergovernmental | 476,000 | 476,000 | 521,231 | 45,231 |
| Restricted intergovernmental | 52,700 | 52,700 | 197,054 | 144,354 |
| Permits and fees | 3,000 | 3,000 | 3,940 | 940 |
| Sales and services | 221,300 | 221,300 | 218,167 | (3,133) |
| Investment earnings | 400 | 400 | 3,819 | 3,419 |
| Miscellaneous | 9,500 | 9,500 | 18,980 | 9,480 |
| | <u>1,342,900</u> | <u>1,342,900</u> | <u>1,546,253</u> | <u>203,353</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General government | 356,900 | 368,385 | 397,315 | (28,930) |
| Public safety | 506,000 | 542,322 | 532,015 | 10,307 |
| Streets and sanitation | 463,997 | 664,063 | 649,100 | 14,963 |
| Debt service: | | | | |
| Principal | 26,913 | 26,913 | 26,856 | 57 |
| Interest and other charges | 5,790 | 5,790 | 5,790 | - |
| | <u>1,359,600</u> | <u>1,607,473</u> | <u>1,611,076</u> | <u>(3,603)</u> |
| Revenues over (under) expenditures | <u>(16,700)</u> | <u>(264,573)</u> | <u>(64,823)</u> | <u>199,750</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Sale of fixed assets | 1,000 | 1,000 | - | (1,000) |
| Appropriated fund balance | 15,700 | 263,573 | - | (263,573) |
| | <u>16,700</u> | <u>264,573</u> | <u>-</u> | <u>(264,573)</u> |
| Change in net position | <u>\$ -</u> | <u>\$ -</u> | (64,823) | <u>\$ (64,823)</u> |
| Fund balances - beginning of year | | | <u>919,924</u> | |
| Fund balances - end of year | | | <u>\$ 855,101</u> | |

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

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Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town of Richlands is a municipal corporation which is governed by an elected mayor and five-member board. As required by generally accepted accounting principles, these financial statements present the Town, which has no component units.

B. Basis of Presentation - Fund Accounting

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. These statements report the governmental activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. 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.

The Town reports the following major governmental fund:

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

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.

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

Government-wide Fund Financial Statements. The government-wide fund financial statements are reported using the economic resources measurement focus. The government-wide 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.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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

D. Budgetary Data

The Town's budget is adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at the fiscal year end. A project ordinance has been adopted for the Sidewalk and Street Improvements Project Funds. The budget is prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds. The finance officer may transfer amounts between objects of expenditures within a department without limitations and without an official report being requested. Any other transfer or revisions that alter the total expenditures of any fund must be approved by the governing board.

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). The Town's investments are reported at fair value. Non-participating interest earning investment contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at fair value. The NCCMT Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2019, The Term portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

2. Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Restricted Assets

Powell bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. As of June 30, 2019, \$499 was restricted in governmental activities.

| | | |
|--------------------------------|---------|---------------|
| Restricted Cash - General Fund | Streets | <u>\$ 499</u> |
|--------------------------------|---------|---------------|

4. Ad Valorem Taxes Receivable

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

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 for all assets is \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. As a Phase 3 government, the Town is not required to report major general infrastructure assets retroactively and, as such, has elected not to include these assets in their basic financial statements. As a result, the governmental activities column in the government-wide financial statements does not reflect those infrastructure asset projects completed before July 1, 2003. However, it does reflect those assets that were completed subsequent to that date. 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.

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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

| <u>Asset Class</u> | <u>Estimated Useful Lives</u> |
|-------------------------|-----------------------------------|
| Infrastructure | 50 |
| Buildings | 30 |
| Improvements | 25 |
| Vehicles | 6 |
| Furniture and equipment | 10 |
| Computer equipment | 3 |

7. Long-Term Obligations

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

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meets this criterion, contributions made to the pension plan in the 2019 fiscal year and changes in proportion and differences between employer contributions and proportional share of contributions. 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 only three items that meet the criterion for this category - prepaid taxes, property taxes receivable and pension deferrals.

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

9. Compensated Absences

The vacation policy of the Town is to provide 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 does not have any 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 invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets 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.

Net investment in capital assets was calculated excluding the \$101,199 installment purchase balance obtained in October 2012. The funds related to this purchase were recognized as an expense, not capitalized, in the prior fiscal year.

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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.

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

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

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

11. Defined Benefit Cost-Sharing Plans

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

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

II. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one method. 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 its 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 undercollateralization, 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 policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designing official depositories and verifying that deposits are properly secured.

\$548,844. Of the 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 change fund totaled \$100.

2. Investments

At June 30, 2019, the Town of Richlands had \$166,297 invested with the North Carolina Capital Management Trust's Government Portfolio with carried a credit rating of AAAM by Standard and Poor's. The investment is considered Fair Value Level 2. Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' benchmark quoted prices. The Town has no policy regarding credit risk.

The Town's only investment is in the North Carolina Capital Management Trust.

| | <u>Reported Value</u> | <u>Fair Value</u> |
|--------------------------------------|-----------------------|-------------------|
| North Carolina Cash Management Trust | <u>\$ 166,297</u> | <u>\$ 166,297</u> |

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

3. Receivables

The amounts presented in Exhibit 1, the Balance Sheet and the Statement of Net Position are as follows:

| | <u>General Fund</u> |
|----------------------------|---------------------|
| Taxes receivable | \$ 11,922 |
| State and county sales tax | 56,894 |
| Local government sales tax | 4,877 |
| ABC revenues | 16,000 |
| Utility franchise tax | 4,423 |
| Telecommunication tax | 25,104 |
| Accounts receivable | \$ 107,298 |

4. Capital Assets

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

| | <u>Beginning Balances</u> | <u>Increases</u> | <u>Decreases</u> | <u>Ending Balances</u> |
|--|-------------------------------|------------------|------------------|----------------------------|
| Government Activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Construction in progress | \$ 5,465 | \$ 47,965 | \$ - | \$ 53,430 |
| Land | 365,898 | - | - | 365,898 |
| Total capital assets not being depreciated | 371,363 | 47,965 | - | 419,328 |
| Capital assets being depreciated: | | | | |
| Buildings and infrastructure | 960,709 | - | - | 960,709 |
| Machinery and equipment | 167,538 | - | - | 167,538 |
| Vehicles and motorized equipment | 291,390 | - | - | 291,390 |
| Total capital assets being depreciated | 1,419,637 | - | - | 1,419,637 |
| Less accumulated depreciation for: | | | | |
| Buildings | 257,583 | 27,980 | - | 285,563 |
| Machinery and equipment | 127,286 | 11,473 | - | 138,759 |
| Vehicles and motorized equipment | 253,203 | 17,254 | - | 270,457 |
| Total capital assets being depreciated | 638,072 | 56,707 | - | 694,779 |
| Governmental activity capital assets, net | \$ 1,152,928 | | | \$ 1,144,186 |

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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

| | |
|----------------------------|------------------|
| General government | \$ 17,712 |
| Public safety | 18,056 |
| Streets and sanitation | <u>20,939</u> |
| Total depreciation expense | <u>\$ 56,707</u> |

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

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

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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

Contributions . Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town 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'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 were \$48,504 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 \$234,625 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 0.00989%, which was an increase of 0.00081% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$68,513. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|---|---|--|
| Differences between expected and actual experience | \$ 36,197 | \$ 1,215 |
| Changes of assumptions | 62,260 | - |
| Net difference between projected and actual earnings on pension plan investments | 32,207 | - |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 4,092 | 1,693 |
| Town contributions subsequent to measurement date | 48,504 | - |
| Total | \$ 183,260 | \$ 2,908 |

The \$48,504 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

| | |
|------------|-----------|
| 2020 | \$ 63,800 |
| 2021 | 40,820 |
| 2022 | 7,827 |
| 2023 | 19,401 |
| 2024 | - |
| Thereafter | - |

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

| | |
|---------------------------|---|
| Inflation | 3.0 percent |
| Salary increases | 3.50 to 8.10 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.

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Fixed Income | 29.0% | 1.4% |
| Global Equity | 42.0% | 5.3% |
| Real Estate | 8.0% | 4.3% |
| Alternatives | 8.0% | 8.9% |
| Credit | 7.0% | 6.0% |
| Inflation Protection | 6.0% | 4.0% |
| 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 asset to changes in the discount rate. The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.00 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

| | 1% Decrease (6.00%) | Discount Rate (7.00%) | 1% Increase (8.00%) |
|---|--------------------------------|--------------------------------------|--------------------------------|
| Town's proportionate share of the net pension liability (asset) | \$ 563,589 | \$ 234,625 | \$ (40,263) |

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

All full-time 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 | 8 |
| Total | 8 |

(2) Summary of Significant Accounting Policies

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

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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

(3) Actuarial Assumption

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

| | |
|------------------|---|
| Inflation | 2.5 percent |
| Salary increases | 3.50 to 7.35 percent, including inflation and productivity factor |
| Discount rate | 3.64 percent |

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

Mortality rates are projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015.

(4) Contributions

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

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

At June 30, 2019, the Town reported a total pension liability of \$35,522. 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 \$7,503.

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ - | \$ 5,802 |
| Changes of assumptions and other inputs | 3,359 | 2,435 |
| Total | <u>\$ 3,359</u> | <u>\$ 8,237</u> |

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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

Year ended June 30:

| | |
|------------|------------|
| 2020 | \$ (1,067) |
| 2021 | (1,067) |
| 2022 | (1,067) |
| 2023 | (1,019) |
| 2024 | (658) |
| Thereafter | - |

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 one percentage point lower (2.16 percent) or one percentage point higher (4.16 percent) than the current rate:

| | <u>1% Decrease</u> | <u>Discount</u> | <u>1% Increase</u> |
|-------------------------|--------------------|-----------------|--------------------|
| | <u>(2.64%)</u> | <u>Rate</u> | <u>(4.64%)</u> |
| | | <u>(3.64%)</u> | |
| Total pension liability | \$ 40,714 | \$ 35,522 | \$ 31,035 |

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

| | <u>2019</u> |
|---|------------------|
| Beginning balance | \$ 32,023 |
| Service Cost | 7,230 |
| Interest on the pension liability | 1,012 |
| Changes of assumptions or other inputs | (2,398) |
| Difference between expected and actual experience | (2,345) |
| Ending balance of the total pension liability | <u>\$ 35,522</u> |

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

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

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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

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

| | LGMERS | LEOSSA | Total |
|---|-----------|----------|-----------|
| Pension Expense | \$ 68,513 | \$ 7,503 | \$ 76,016 |
| Pension Liability | 234,625 | 35,522 | 270,147 |
| Proportionate share of the net pension liability | 0.00989% | N/A | |
| Deferred Outflows of Resources | | | |
| Differences between expected and actual experience | 36,197 | - | 36,197 |
| Changes of assumptions | 62,260 | 3,359 | 65,619 |
| Net difference between projected and actual earnings on pension plan investments | 32,207 | - | 32,207 |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 4,092 | - | 4,092 |
| Town contributions subsequent to measurement date | 48,504 | - | 48,504 |
| Deferred Inflows of Resources | | | |
| Differences between expected and actual experience | 1,215 | 5,802 | 7,017 |
| Changes in assumptions and other inputs | - | 2,435 | 2,435 |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 1,693 | - | 1,693 |

c. Supplemental Retirement Income Plan for Law Enforcement Officers

(1) 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.

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

(2) Funding Policy

Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$24,195, which consisted of \$16,359 from the Town and \$7,836 from the law enforcement officers.

The Town has also elected to contribute to the Plan for general employees as well as for law enforcement officers. Contributions for general employees for the year ended June 30, 2019 were \$14,891, which consisted of \$11,001 from the Town and \$3,890 from the general employees.

2. Other Employment Benefit

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

3. Deferred Outflows and Inflows of Resources

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

| | <u>Amount</u> |
|---|-------------------|
| Contributions to pension plan in current fiscal year | \$ 48,504 |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 4,092 |
| Differences between expected and actual experience | 36,197 |
| Changes in assumptions and other inputs | 65,619 |
| Net difference between projected and actual expected earnings | <u>32,207</u> |
| | <u>\$ 186,619</u> |

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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

| | Statement of Net Position | General Fund Balance Sheet |
|---|------------------------------|----------------------------------|
| Property taxes receivable | \$ - | \$ 11,922 |
| Franchise/Telecom taxes receivable | - | 29,527 |
| Due from other governments | - | 56,414 |
| Change in proportion and differences in employer contributions and proportionate share of contributions | 1,693 | - |
| Differences between actual and expected experience | 7,017 | - |
| Changes in assumptions | 2,435 | - |
| Total | \$ 11,145 | \$ 97,863 |

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request. The Town does not hold any flood insurance.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Town Clerk is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$25,000.

5. Long-Term Obligations

a. Installment Purchases

As of June 30, 2019, the Town has two outstanding installment purchase agreements.

The first agreement was executed on August 11, 2011 for \$66,000, to finance the renovation of the community center and requires principal payments beginning August 2013 with an interest rate of 4.125 percent. Ending balance of \$56,318.

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

The second agreement was executed on October 30, 2012 for \$253,001, to finance street improvement expenditures and requires principal payments beginning October 2013 with an interest rate of 2.69 percent. Ending balance of \$101,201.

| Year Ending June 30, | Governmental Activities | |
|-------------------------|-------------------------|------------------|
| | Principal | Interest |
| 2020 | 26,989 | 5,172 |
| 2021 | 26,989 | 4,298 |
| 2022 | 27,058 | 3,547 |
| 2023 | 27,131 | 2,794 |
| 2024 | 27,131 | 2,037 |
| Thereafter | 22,221 | 24,209 |
| Total | <u>\$ 157,519</u> | <u>\$ 42,057</u> |

At June 30, 2019 the Town of Richlands had a legal debt margin of \$11,134,314.

b. Changes in Long-Term Liabilities

| | Balance at July 1, 2018 | Additions | Retirements and Transfers | Balance at June 30, 2019 | Current Portion of Balance |
|--|----------------------------|----------------|------------------------------|--------------------------------|----------------------------------|
| Governmental activities | | | | | |
| Installment purchase | \$ 184,375 | \$ - | \$ 26,856 | \$ 157,519 | \$ 26,989 |
| Total pension liability (LEO) | 32,373 | 3,149 | - | 35,522 | - |
| Net pension liability (LGERS) | 138,717 | 95,908 | - | 234,625 | - |
| Compensated absences | 46,496 | 6,416 | - | 52,912 | 52,912 |
| Governmental activity long-term liabilities | <u>401,961</u> | <u>105,473</u> | <u>26,856</u> | <u>480,578</u> | <u>79,901</u> |

C. Net Investment in Capital Assets

| | |
|----------------------------------|------------------------------|
| Capital Assets | Governmental \$ 1,144,186 |
| less: long-term debt | 56,318 |
| Net investment in capital assets | <u>\$ 1,087,868</u> |

Net investment in capital assets was calculated excluding the \$101,201 installment purchase balance obtained in October 2012. The outflow related to this purchase was recognized as an expense, not capitalized, in the year incurred.

Town of Richlands, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

D. Fund Balance

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

| | |
|--|------------|
| Total fund balance-General Fund | \$ 855,101 |
| Less: | |
| Stabilization by State Statute | 208,582 |
| Streets-Powell Bill | 499 |
| Appropriated Fund Balance in 2020 Budget | 32,000 |
| Remaining Fund Balance | \$ 614,020 |

There were no outstanding encumbrances at June 30, 2019.

III. Summary Disclosure 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.

IV. Subsequent Events

Subsequent events were evaluated through November 29, 2019, which is the date the financial statements were available to be issued.

V. Stewardship, Compliance, and Accountability

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2019, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for general government activities by \$3,603. This was the result of a \$28,930 overage in the general government department. This over-expenditure occurred because of the community center roof project not being recorded as a budget amendment in the current year. The Town's Board had approved the expenditures prior to the Town's spending of the funds, but the Town did not process the related budget amendment. Management and Board will work to ensure the budget amendment is recorded at the same time Board approval is received.

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Required Supplementary Financial Data

- Schedule of Proportionate Share of Net Pension Asset for Local Government Employees' Retirement System.
 - Schedule of Contributions to Local Government Employees' Retirement System.
 - Schedule of Changes in Total Pension Liability - Law Enforcement Officers' Special Separation Allowance.
 - Schedule of Total Pension Liability as a Percentage of Covered Payroll.
-

Town of Richlands, North Carolina
TOWN OF RICHLANDS' PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST FIVE FISCAL YEARS*

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|-------------|-------------|-------------|
| Richlands' proportion of the net pension liability (asset) (%) | 0.00989% | 0.00908% | 0.00924% | 0.00929% | 0.00820% |
| Richlands' proportion of the net pension liability (asset) (\$) | \$ 234,625 | \$ 138,717 | \$ 196,104 | \$ 41,693 | \$ (48,359) |
| Richlands' covered-employee payroll | \$ 572,133 | \$ 549,364 | \$ 533,823 | \$ 496,351 | \$ 445,542 |
| Richlands' proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll | 41.01% | 25.25% | 36.74% | 8.40% | -10.85% |
| Plan fiduciary net position as a percentage of the total pension liability** | 91.63% | 94.18% | 91.47% | 98.09% | 102.64% |

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

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

Town of Richlands, North Carolina
TOWN OF RICHLANDS' CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST FIVE FISCAL YEARS

LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|-------------|-------------|
| Contractually required contribution | \$ 48,504 | \$ 45,106 | \$ 41,888 | \$ 36,787 | \$ 35,884 |
| Contributions in relation to the contractually required contribution | 48,504 | 45,106 | 41,888 | 36,787 | 35,884 |
| Contribution deficiency (excess) | <u>\$ -</u> |
| Richlands' covered-employee payroll | \$ 596,870 | \$ 572,133 | \$ 549,364 | \$ 533,823 | \$ 496,351 |
| Contributions as a percentage of covered-employee payroll | 8.13% | 7.88% | 7.62% | 6.89% | 7.23% |

Town of Richlands, North Carolina
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
June 30, 2019

| | <u>2019</u> | <u>2018</u> |
|---|------------------|------------------|
| Beginning balance | \$ 32,023 | \$ 25,227 |
| Service Cost | 7,230 | 6,588 |
| Interest on the total pension liability | 1,012 | 974 |
| Difference between expected and actual experience | (2,345) | (5,897) |
| Changes of assumptions and other inputs | (2,398) | 5,131 |
| Ending balance of the total pension liability | <u>\$ 35,522</u> | <u>\$ 32,023</u> |

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

Town of Richlands, North Carolina
**SCHEDULE OF TOTAL PENSION LIABILITY AS A
 PERCENTAGE OF COVERED PAYROLL
 LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
 June 30, 2019**

| | 2019 | 2018 |
|--|-------------|-------------|
| Total pension liability | \$ 35,522 | \$ 32,023 |
| Covered payroll | 290,918 | 292,085 |
| Total pension liability as a percentage of covered payroll | 12.21% | 10.96% |

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

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INDIVIDUAL FUND STATEMENTS AND SCHEDULES

- Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund
-

Town of Richlands, North Carolina
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2019
(With Comparative Actual Amounts for the Year Ended June 30, 2018)

| | 2019 | | Variance Positive (Negative) | 2018 |
|---------------------------------|--------------|--------------|------------------------------------|--------------|
| | Budget | Actual | | Actual |
| Revenues: | | | | |
| Ad valorem taxes: | | | | |
| Taxes | \$ - | \$ 581,268 | \$ - | \$ 599,195 |
| Penalties and interest | - | 1,794 | - | 3,826 |
| Total | 580,000 | 583,062 | 3,062 | 603,021 |
| Unrestricted intergovernmental: | | | | |
| Local option sales taxes | - | 328,329 | - | 304,594 |
| Utilities sales tax | - | 104,475 | - | 102,534 |
| Beer and wine tax | - | 7,816 | - | 7,753 |
| ABC profit distribution | - | 49,390 | - | 42,924 |
| Video programming sales tax | - | 20,425 | - | 21,217 |
| Telecommunications sales tax | - | 10,796 | - | 11,586 |
| Total | 476,000 | 521,231 | 45,231 | 490,608 |
| Restricted intergovernmental: | | | | |
| Powell Bill allocation | - | 52,838 | - | 53,216 |
| Federal and state grants | - | 144,216 | - | - |
| Total | 52,700 | 197,054 | 144,354 | 53,216 |
| Permits and fees: | | | | |
| Building permits | - | 3,940 | - | 3,750 |
| Total | 3,000 | 3,940 | 940 | 3,750 |
| Sales and services: | | | | |
| Rents and concessions | - | 57,083 | - | 58,983 |
| Garbage and recycling fees | - | 161,084 | - | 156,842 |
| Total | 221,300 | 218,167 | (3,133) | 215,825 |
| Investment earnings: | 400 | 3,819 | 3,419 | 1,002 |
| Miscellaneous: | | | | |
| Miscellaneous | - | 14,223 | - | 15,067 |
| Court refunds, parking fees | - | 4,757 | - | 5,086 |
| Total | 9,500 | 18,980 | 9,480 | 20,153 |
| Total revenues | \$ 1,342,900 | \$ 1,546,253 | \$ 203,353 | \$ 1,387,575 |

Town of Richlands, North Carolina
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL (continued)
For the Fiscal Year Ended June 30, 2019
(With Comparative Actual Amounts for the Year Ended June 30, 2018)

| | 2019 | | Variance Positive (Negative) | 2018 |
|--------------------------------|---------|----------|------------------------------------|----------|
| | Budget | Actual | | Actual |
| Expenditures: | | | | |
| General government: | | | | |
| Governing body: | | | | |
| Fees - elected officials | \$ - | \$ 9,698 | \$ - | \$ 9,698 |
| Operating expenses | - | 44,261 | - | 44,088 |
| Contracted services | - | 27,775 | - | 30,544 |
| Total | 85,964 | 81,734 | 4,230 | 84,330 |
| Administration: | | | | |
| Salaries and employee benefits | - | 212,347 | - | 203,990 |
| Operating expenses | - | 21,864 | - | 27,440 |
| Contracted services | - | 7,503 | - | 11,587 |
| Total | 251,921 | 241,714 | 10,207 | 243,017 |
| General buildings and grounds | | | | |
| Operating expenses | - | 10,378 | - | 12,623 |
| Contracted services | - | 15,524 | - | 19,711 |
| Capital outlay | - | 47,965 | - | 13,065 |
| Total | 30,500 | 73,867 | (43,367) | 45,399 |
| Total general government | 368,385 | 397,315 | (28,930) | 372,746 |
| Public safety: | | | | |
| Police: | | | | |
| Salaries and employee benefits | - | 441,754 | - | 420,814 |
| Operating expenses | - | 50,727 | - | 47,908 |
| Contracted services | - | 14,034 | - | 15,757 |
| Total | 516,822 | 506,515 | 10,307 | 484,479 |
| Fire: | | | | |
| Contracted services | - | 25,500 | - | 25,500 |
| Total | 25,500 | 25,500 | - | 25,500 |
| Total public safety | 542,322 | 532,015 | 10,307 | 509,979 |

Town of Richlands, North Carolina
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES - BUDGET AND ACTUAL (continued)
For the Fiscal Year Ended June 30, 2019
(With Comparative Actual Amounts for the Year Ended June 30, 2018)

| | 2019 | | Variance Positive (Negative) | 2018 |
|------------------------------------|-------------|-------------------|------------------------------------|-------------------|
| | Budget | Actual | | Actual |
| Streets and sanitation: | | | | |
| Salaries and employee benefits | \$ - | \$ 202,823 | \$ - | \$ 173,426 |
| Operating expenses | - | 95,093 | - | 76,977 |
| Contracted services | - | 328,254 | - | 177,371 |
| Capital outlay | - | - | - | 10,499 |
| Powell Bill | - | 22,930 | - | 35,497 |
| | | | | |
| Total streets and sanitation | 664,063 | 649,100 | 14,963 | 473,770 |
| Debt service: | | | | |
| Principal retirement | - | 26,856 | - | 26,796 |
| Interest and other charges | - | 5,790 | - | 6,532 |
| | | | | |
| Total debt service | 32,703 | 32,646 | 57 | 33,328 |
| | | | | |
| Total expenditures | 1,607,473 | 1,611,076 | (3,603) | 1,389,823 |
| Revenues over (under) expenditures | (264,573) | (64,823) | 199,750 | (2,248) |
| Other financing sources (uses): | | | | |
| Sale of fixed assets | 1,000 | - | - | 408 |
| Appropriated fund balance | 263,573 | - | - | - |
| | | | | |
| Total other financing sources | 264,573 | - | (264,573) | 408 |
| Net change in fund balance | <u>\$ -</u> | (64,823) | <u>\$ (64,823)</u> | (1,840) |
| Fund balances: | | | | |
| Beginning of year, July 1 | | <u>919,924</u> | | <u>921,764</u> |
| End of year, June 30 | | <u>\$ 855,101</u> | | <u>\$ 919,924</u> |

OTHER SCHEDULES

- Schedule of Ad Valorem Taxes Receivable
 - Analysis of Current Tax Levy – Town Wide Levy
-

Town of Richlands, North Carolina
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2019

| Fiscal Year | Uncollected Balance June 30, 2018 | Additions | Collections And Credits | Uncollected Balance June 30, 2019 |
|---|---|-------------------|----------------------------|---|
| 2018-2019 | \$ - | \$ 586,897 | \$ 577,536 | \$ 9,361 |
| 2017-2018 | 3,244 | - | 1,600 | 1,644 |
| 2016-2017 | 2,094 | - | 575 | 1,519 |
| 2015-2016 | 1,377 | - | 44 | 1,333 |
| 2014-2015 | 913 | - | 37 | 876 |
| 2013-2014 | 2,423 | - | 172 | 2,251 |
| 2012-2013 | 3,600 | - | 31 | 3,569 |
| 2011-2012 | 1,135 | - | 103 | 1,032 |
| 2010-2011 | 1,217 | - | 132 | 1,085 |
| 2009-2010 | 1,421 | - | 1,289 | 132 |
| 2008-2009 | <u>1,088</u> | <u>-</u> | <u>1,088</u> | <u>-</u> |
| | <u>\$ 18,512</u> | <u>\$ 586,897</u> | <u>\$ 582,607</u> | <u>22,802</u> |
| Less: allowance for uncollectible accounts: | | | | |
| General Fund | | | | <u>10,880</u> |
| Ad valorem taxes receivable - net | | | | <u>\$ 11,922</u> |
| <u>Reconciliation to revenues:</u> | | | | |
| Ad valorem taxes - General Fund | | | | 583,062 |
| Releases and adjustments | | | | 1,117 |
| Taxes written off | | | | <u>222</u> |
| Subtotal | | | | 584,401 |
| Less: Interest collected | | | | <u>(1,794)</u> |
| Total collections and credits | | | | <u>\$ 582,607</u> |

Town of Richlands, North Carolina
ANALYSIS OF CURRENT TAX LEVY
For the Fiscal Year Ended June 30, 2019

| | Town - Wide | | Total Levy | | |
|---|-----------------------|--------------------|-------------------|--|---------------------------------|
| | Property Valuation | Rate | Total Levy | Property excluding Registered Motor Vehicles | Registered Motor Vehicles |
| | Tax Levy - Town-wide | <u>154,446,579</u> | 0.38 | <u>586,897</u> | <u>531,826</u> |
| Total | <u>154,446,579</u> | | <u>586,897</u> | <u>531,826</u> | <u>55,071</u> |
| Discoveries - current and prior years | <u>-</u> | | <u>-</u> | <u>-</u> | <u>-</u> |
| Total property valuation | <u>\$ 154,446,579</u> | | | | |
| Net levy | | | 586,897 | 531,826 | 55,071 |
| Uncollected taxes at June 30, 2019 | | | <u>(9,361)</u> | <u>(9,361)</u> | <u>-</u> |
| Current year's taxes collected June 30, 2019 | | | <u>\$ 577,536</u> | <u>\$ 522,465</u> | <u>\$ 55,071</u> |
| Current levy collected percentage | | | 98.41% | 98.24% | 100.00% |

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Compliance Section

- Independent Auditor's 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*
 - Schedule of Findings and Responses
-

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WILLIAMS · SCARBOROUGH · GRAY, LLP
Certified Public Accountants

Christopher K. Williams, CPA
Steven N. Scarborough, CPA
W. Randall Gray, CPA

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

Independent Auditor's Report

To the Honorable Mayor and Members of the Board of Aldermen
Town of Richlands, 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 financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Richlands, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town of Richlands, North Carolina's basic financial statements and have issued our report thereon dated November 29, 2019.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for 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. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, 2019-1 and 2019-2.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Richlands, North Carolina'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

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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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as 2019-3.

Town of Richlands, North Carolina's Response to Findings

Town of Richlands, North Carolina's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Richlands, North Carolina'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.

Williams • Scarborough • Gray, LLP

Williams • Scarborough • Smith • Gray, LLP
Jacksonville, North Carolina
November 29, 2019

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

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal Control over financial reporting:

- Material weakness(es) identified? _____ yes X no
- Significant Deficiency(ies) identified that are not considered to be material weaknesses? X yes _____ none reported

Noncompliance material to financial statements noted X yes _____ no

Section II. Financial Statement Findings

SIGNIFICANT DEFICIENCIES

2019-1 Segregation of Duties

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: Lack of segregation of duties among Town personnel.

Effect: Transactions could be mishandled.

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

Recommendation: The duties should be separated as much as possible and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and works to segregate duties as much as possible, but concedes that full segregation is not fully possible based on their staff size.

2019-2 Internal Control over Financial Reporting

Criteria: Town should have a system of controls over the financial reporting process.

Condition: Town does not have a system of controls over the financial reporting process.

Effect: Incorrect or incomplete financial statements could be issued.

Cause: Skill set of Town personnel does not include experience in preparation of financial statements.

Recommendation: The Town should evaluate the cost/benefit of engaging a CPA to provide the controls.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and does not consider the benefit provided sufficient to incur the additional expense.

2019-3 Expenditures in Excess of Appropriations

Criteria: Town may not make expenditures for which there are not appropriations budgeted.

Condition: As of June 30, 2019, expenditures were incurred in excess of amounts appropriated by a material amount (\$28,930) in the general government department.

Effect: The Town is not in compliance with State statute. Amounts were spent despite lack of budgeted funds to support the expenditures.

Cause: The Town did not adjust the budget for approved expenditures.

Recommendation: The Town should process a formal budget amendment at the same time the Board authorizes the expenditures.

Views of responsible officials and planned corrective actions: The Town agrees with this finding. The Town obtained Board approval prior to expending funds and only the process of recording the adjustment to the budget was overlooked. Management will work to record the budget amendment at the same time the expenditure is approved by the Board for future material expenses.