

**TOWN OF RUTHERFORDTON
NORTH CAROLINA**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

TOWN OF RUTHERFORDTON, NORTH CAROLINA

FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Independent Auditor's Report

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

Report On the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Rutherfordton, 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 Rutherfordton's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Rutherfordton ABC Board. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Rutherfordton ABC Board are based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Town of Rutherfordton ABC Board were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll be presented to supplement the basic financial statements. Such information, although not a 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 and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consist 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 Rutherfordton's basic financial statements. The budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules and other schedules are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the budgetary schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2019 on our consideration of the Town of Rutherfordton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Rutherfordton's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Rutherfordton's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 11, 2019

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Management's Discussion and Analysis

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

Financial Highlights

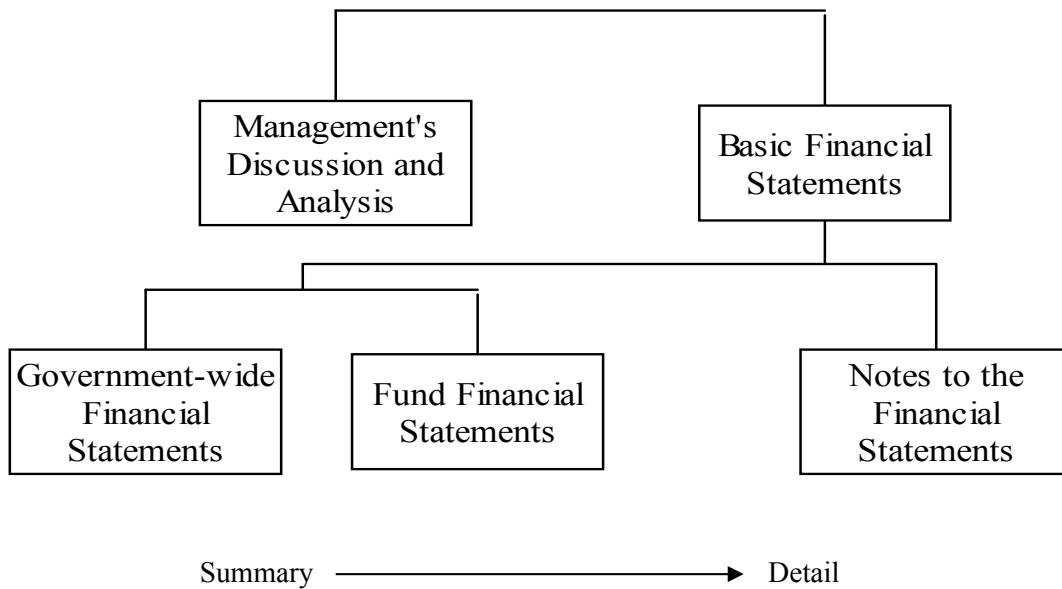
- The assets and deferred outflows of resources of the Town of Rutherfordton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$13,648,989 (*net position*).
- The Town's total net position increased by \$356,733 primarily due to an increase in capitalized assets along with recognition of debt proceeds. The Town also received significantly less ad valorem tax revenue from county-provided estimates used in budgeted amounts, but adjusted expenditures to account for the decrease. Another stimulant to the increase of net position was the use of debt proceeds for capital spending.
- As of the close of the current fiscal year, the Town of Rutherfordton's governmental funds reported combined ending fund balances of \$3,230,936. That amount is an increase of \$276,658, in comparison with the prior year. Approximately 46.80 percent of this total amount, or \$1,512,135, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,718,801, or 40.26 percent, of total General Fund expenditures.
- The outstanding debt for the Town is \$2,353,936 at June 30, 2019. The Town paid debt service in the amount of \$267,069.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) 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 C through I) are **fund financial statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The final 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. Following the notes is the **required supplemental information**. This section contains funding information about the Town's pension plans. After the required supplemental information, **supplemental schedules** are provided to show details about budgetary information required by the General Statutes.

Government-Wide Financial Statements

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

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

The government-wide financial statements are divided into the following three types of activities:

Governmental Activities. These activities of the Town include general government, public safety, transportation and environmental protection and cultural recreation. Property taxes along with state and federal grants finance most of these activities.

Business-Type Activities. The Town charges fees to recover the costs associated with providing certain services. The activities include solid waste and sewage disposal.

Component Units. There is one component unit of the Town of Rutherfordton: The Town of Rutherfordton ABC Board. Although legally separate from the Town, the Town of Rutherfordton ABC Board is important to the Town. The Town exercises control over the ABC Board by appointing its members and the Board is required to distribute its profits to the Town.

The government-wide financial statements directly follow the Management's Discussion and Analysis of this report on Exhibits A and B.

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 Rutherfordton, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Rutherfordton 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 adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities, is shown at the end of the budgetary statement.

Proprietary Funds. The Enterprise Fund is the only proprietary-type fund that the Town utilizes. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for solid waste disposal and user disposal fees. These funds are the same as those shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements directly follow the basic financial statements of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Rutherfordton's progress in funding its obligation to provide pension benefits to its law enforcement officers. Required supplementary information can be found directly following the notes 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.

Government-Wide Financial Analysis

Town of Rutherfordton's Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Assets:						
Current and other assets	\$ 3,179,654	\$ 2,928,630	\$ 1,191,473	\$ 2,389,303	\$ 4,371,127	\$ 5,317,933
Restricted assets	309,125	272,584	-	-	309,125	272,584
Capital assets	3,833,432	4,111,321	8,862,423	6,953,393	12,695,855	11,064,714
Total assets	<u>7,322,211</u>	<u>7,312,535</u>	<u>10,053,896</u>	<u>9,342,696</u>	<u>17,376,107</u>	<u>16,655,231</u>
Deferred Outflows of Resources	<u>671,989</u>	<u>375,818</u>	<u>11,281</u>	<u>7,207</u>	<u>683,270</u>	<u>383,025</u>
Liabilities:						
Current liabilities	347,760	316,531	602,764	140,805	950,524	457,336
Long-term liabilities	1,477,436	1,206,594	1,940,694	2,041,572	3,418,130	3,248,166
Total liabilities	<u>1,825,196</u>	<u>1,523,125</u>	<u>2,543,458</u>	<u>2,182,377</u>	<u>4,368,654</u>	<u>3,705,502</u>
Deferred Inflows of Resources	<u>41,059</u>	<u>39,597</u>	<u>675</u>	<u>901</u>	<u>41,734</u>	<u>40,498</u>
Net Position:						
Net investment in capital assets	3,531,184	3,669,664	7,059,127	6,553,139	10,590,311	10,222,803
Restricted	1,512,135	1,231,891	-	-	1,512,135	1,231,891
Unrestricted	<u>1,084,626</u>	<u>1,224,076</u>	<u>461,917</u>	<u>613,486</u>	<u>1,546,543</u>	<u>1,837,562</u>
Total net position	<u>\$ 6,127,945</u>	<u>\$ 6,125,631</u>	<u>\$ 7,521,044</u>	<u>\$ 7,166,625</u>	<u>\$ 13,648,989</u>	<u>\$ 13,292,256</u>

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of the Town of Rutherfordton exceeded its liabilities and deferred inflows of resources by \$13,648,989 as of June 30, 2019. The Town's net position increased by \$356,733 for the fiscal year ended June 30, 2019. Net position of the Town is reported in three categories: net investment in capital assets of \$10,590,311; restricted net position of \$1,512,135; and unrestricted net position of \$1,546,543.

The net investment in capital assets category is defined as the Town's investment in Town-owned capital assets (e.g. land, buildings, automotive equipment, and office and other equipment), less any related debt still outstanding that was issued to acquire those assets. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of outstanding related debt, the resources needed to repay that debt must be provided by other resources since the capital assets cannot be used to liquidate these liabilities.

Restricted net position consists of restrictions for stabilization by state statute, public safety protection costs, streets - Powell Bill, and other cultural and recreation – recreation endowment and perpetual maintenance.

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

- A managed approach to long term capital planning and spending
- Strong management control of the budget
- Significant decrease in budgeted usage of fund balance

Town of Rutherfordton's Changes in Net Position
Figure 3

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Revenues:						
Program revenues:						
Charges for services	\$ 179,827	\$ 115,007	\$ 944,280	\$ 971,824	\$ 1,124,107	\$ 1,086,831
Operating grants and contributions	527,252	596,169	-	-	527,252	596,169
Capital grants and contributions	-	-	603,224	-	603,224	-
General revenues:						
Property taxes	1,897,657	1,912,248	-	-	1,897,657	1,912,248
Other taxes	1,624,586	1,559,611	-	-	1,624,586	1,559,611
Other	281,985	158,919	9,054	3,858	291,039	162,777
Total revenues	<u>4,511,307</u>	<u>4,341,954</u>	<u>1,556,558</u>	<u>975,682</u>	<u>6,067,865</u>	<u>5,317,636</u>
Expenses:						
General government	811,688	777,806	-	-	811,688	777,806
Public safety	2,090,997	2,059,323	-	-	2,090,997	2,059,323
Transportation and environmental protection	989,654	1,058,936	-	-	989,654	1,058,936
Cultural and recreational	538,566	878,532	-	-	538,566	878,532
Interest on long-term debt	78,088	16,435	-	-	78,088	16,435
Sewer	-	-	1,202,139	1,077,253	1,202,139	1,077,253
Total expenses	<u>4,508,993</u>	<u>4,791,032</u>	<u>1,202,139</u>	<u>1,077,253</u>	<u>5,711,132</u>	<u>5,868,285</u>
Change in net position	2,314	(449,078)	354,419	(101,571)	356,733	(550,649)
Net Position:						
Beginning of year - July 1	<u>6,125,631</u>	<u>6,574,709</u>	<u>7,166,625</u>	<u>7,268,196</u>	<u>13,292,256</u>	<u>13,842,905</u>
End of year - June 30	<u>\$ 6,127,945</u>	<u>\$ 6,125,631</u>	<u>\$ 7,521,044</u>	<u>\$ 7,166,625</u>	<u>\$13,648,989</u>	<u>\$13,292,256</u>

Governmental Activities. Governmental activities increased the Town's net position by \$2,314. Key elements of this increase are as follows:

- Strong oversight of budgeted funds throughout the fiscal year
- Board oversight of financial position during the year.

Business-Type Activities. Business-type activities increased the Town's net position by \$354,419. Key elements of this increase are as follows:

- Planned usage of fund balance
- Capitalization of large projects

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

Governmental Funds. The focus of the Town of Rutherfordton's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Town of Rutherfordton's financing requirements. Specifically, fund balance available for appropriation 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 Rutherfordton. At the end of the current fiscal year, available fund balance of the General Fund was \$2,182,567 while total fund balance was \$2,587,279. As a measure of the General Fund's liquidity, it may be useful to compare available fund balance to total fund expenditures. Available fund balance represents 51.1 percent of total General Fund expenditures, while total fund balance represents 60.6 percent of that same amount.

At June 30, 2019, the governmental funds of the Town reported a combined fund balance of \$3,230,936, a \$276,658 increase from last year. The increase was primarily due to an increase in capitalized assets along with recognition of debt proceeds. The Town also received significantly less ad valorem tax revenue from county provided estimates used in budgeted amounts, but adjusted expenditures to account for the decrease. Another stimulant to the increase of net position was the use of debt proceeds for capital spending.

General Fund Budgetary Highlights. The Town's financial position increased during FY 2019 due to receipt of less ad valorem tax revenue in comparison to the prior years. The decrease was also due to the Town departments' diligence in monitoring their operational budgets resulted in total expenditures being under budget at fiscal year-end. On the revenue side, the largest negative budget variances were ad valorem property tax category.

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

Total amendments to the General Fund increased expenditures by \$914,039, or 21.0 percent, of the original budget.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Total net position for the proprietary fund at the end of the fiscal year amounted to \$7,521,044. During the fiscal year 2019, proprietary fund net position increased \$354,419. This is due to the capitalization of large infrastructure projects and investments into the utility.

Capital Asset and Debt Administration

Capital Assets. The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2019 totals \$12,695,855 (net of accumulated depreciation). These assets include land, buildings, equipment, pump stations and sewer collection systems, wastewater treatment plant, and streets.

Town of Rutherfordton's Capital Assets (Net of Depreciation)

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 369,234	\$ 292,254	\$ 2,471,239	\$ 265,531	\$ 2,840,473	\$ 557,785
Buildings and improvements	6,495,331	6,495,331	-	-	6,495,331	6,495,331
Equipment	4,220,887	4,214,940	591,637	574,187	4,812,524	4,789,127
Pump stations and sewer collection systems	-	-	5,540,313	5,540,313	5,540,313	5,540,313
Wastewater treatment plant	-	-	5,189,291	5,189,291	5,189,291	5,189,291
Streets	-	-	30,349	6,460	30,349	6,460
Accumulated depreciation	(7,252,020)	(6,891,204)	(4,960,406)	(4,622,389)	(12,212,426)	(11,513,593)
Total	<u>\$ 3,833,432</u>	<u>\$ 4,111,321</u>	<u>\$ 8,862,423</u>	<u>\$ 6,953,393</u>	<u>\$ 12,695,855</u>	<u>\$ 11,064,714</u>

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

Long-Term Debt. As of June 30, 2019, the Town of Rutherfordton had total direct placement and direct borrowing debt outstanding of \$2,353,936. A summary of long-term debt is shown in Figure 5.

Town of Rutherfordton's Outstanding Debt & Long-Term Liabilities

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Direct placements and direct borrowings	\$ 176,426	\$ 228,673	\$ 2,051,688	\$ 2,156,552	\$ 2,228,114	\$ 2,385,225
Capital lease	125,822	212,984	-	-	125,822	212,984
Total	<u>\$ 302,248</u>	<u>\$ 441,657</u>	<u>\$ 2,051,688</u>	<u>\$ 2,156,552</u>	<u>\$ 2,353,936</u>	<u>\$ 2,598,209</u>

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to eight percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Rutherfordton is \$24,347,712.

Additional information regarding the Town of Rutherfordton's long-term debt can be found in Note 3, Long-Term Debt section of the notes to the basic financial statements.

Budget Highlights for the Fiscal Year Ending June 30, 2020

The FY 2019-2020 budget presented a balanced budget with a change in property tax rate from 56.7 cents to 54 cents due to the countywide revaluation process. This decrease is .08 cents more than the calculated revenue neutral rate and will help the Town achieve its strategic goals and save funds for future capital needs.

The Town of Rutherfordton Council Members have maintained strategic goals that are broken into five focus areas for the fiscal year budget. The five focus areas are Housing & Residential Development, Excellent Customer Service, Development of Commercial Corridors, Business Development, & Outdoor Recreation. These goals are aligned with budget priorities and can be seen in recent developments like the apartments at Park Crossing and the housing development on 5th Street along with work by the Planning Board and Town Council to encourage infill development near the walkable areas of downtown. The Town is also looking to improve its position regional through economic development in the planning of phase 2 of the Town's industrial park in partnership with Duke Energy to master plan this over 100 acres near the new 221 bypass project. Other projects are seeking to grow and foster strong businesses that will incrementally grow jobs that sustain our local economy. The Town is also improving its service levels by adding a full-time firefighter position and a part-time public works position. Future positions in the police department along with these positions help us to meet the growing demands placed on these departments to provide service to the community.

Business-Type Activities. The Town has a strong position to ensure that business-type activities are self-sustaining and provide adequate revenue to cover operations and capital needs. The rates for these activities are set via the fee scheduled to cover these costs for the coming year. The Town will be working to educate residents about changes in the available materials that can be collected via the curbside recycling program to ensure this program remains viable moving forward. In the sewer fund, the town continues to invest in the maintenance of the sewer system along with the SCADA installations to better monitor and track the system.

Requests for Information

This financial report is designed to provide an overview of the Town of Rutherfordton's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to the Town of Rutherfordton Finance Director, 129 North Main Street, North Carolina.

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TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Town of Rutherfordton ABC Board
Assets:				
Current assets:				
Cash and investments	\$ 2,242,320	\$ 756,383	\$ 2,998,703	\$ 82,185
Taxes receivable, net	68,856	-	68,856	-
Receivables, net	404,712	186,698	591,410	-
Inventory	-	-	-	195,748
Prepaid items	-	-	-	3,098
Restricted cash	463,766	248,392	712,158	-
Total current assets	3,179,654	1,191,473	4,371,127	281,031
Non-current assets:				
Capital assets:				
Land	369,234	2,471,239	2,840,473	5,098
Other capital assets, net of depreciation	3,464,198	6,391,184	9,855,382	20,204
Total capital assets	3,833,432	8,862,423	12,695,855	25,302
Restricted assets:				
Endowment Fund	309,125	-	309,125	-
Total assets	7,322,211	10,053,896	17,376,107	306,333
Deferred Outflows of Resources:				
Pension deferrals	671,989	11,281	683,270	23,190
Total deferred outflows of resources	671,989	11,281	683,270	23,190
Liabilities:				
Current liabilities:				
Accounts payable	77,826	471,317	549,143	103,421
Accrued payroll and other liabilities	110,985	3,555	114,540	12,239
Due within one year	158,949	127,892	286,841	-
Total current liabilities	347,760	602,764	950,524	115,660
Long-term liabilities:				
Due in more than one year	313,931	1,926,111	2,240,042	-
Net pension liability - LGERS	700,915	14,583	715,498	27,282
Total pension liability - LEOSSA	462,590	-	462,590	-
Total long-term liabilities	1,477,436	1,940,694	3,418,130	27,282
Total liabilities	1,825,196	2,543,458	4,368,654	142,942
Deferred Inflows of Resources:				
Prepaid taxes	176	-	176	-
Pension deferrals	40,883	675	41,558	141
Total deferred inflows of resources	41,059	675	41,734	141
Net Position:				
Net investment in capital assets	3,531,184	7,059,127	10,590,311	25,302
Restricted for:				
Stabilization for state statute	404,712	-	404,712	-
Public safety	9,365	-	9,365	-
Powell Bill - Streets	171,349	-	171,349	-
Cultural and recreation	283,052	-	283,052	-
Recreation endowment	91,441	-	91,441	-
Perpetual maintenance	552,216	-	552,216	-
Working capital	-	-	-	44,011
Unrestricted	1,084,626	461,917	1,546,543	117,127
Total net position	\$ 6,127,945	\$ 7,521,044	\$ 13,648,989	\$ 186,440

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 811,688	\$ 133,615	\$ 105,778	\$ -
Public safety	2,090,997	25,024	19,778	-
Transportation and environmental protection	989,654	1,088	301,696	-
Cultural and recreation	538,566	20,100	100,000	-
Interest on long-term debt	78,088	-	-	-
Total governmental activities	<u>4,508,993</u>	<u>179,827</u>	<u>527,252</u>	<u>-</u>
Business-Type Activities:				
Sewer	<u>1,202,139</u>	<u>944,280</u>	<u>-</u>	<u>603,224</u>
Total business-type activities	<u>1,202,139</u>	<u>944,280</u>	<u>-</u>	<u>603,224</u>
Total primary government	<u>\$ 5,711,132</u>	<u>\$ 1,124,107</u>	<u>\$ 527,252</u>	<u>\$ 603,224</u>
Component Unit:				
ABC Board	<u>\$ 1,474,746</u>	<u>\$ 1,504,360</u>	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

	Net (Expense) Revenue and Changes in Net Position			Component Unit
	Primary Government			Town of Rutherfordton ABC Board
	Governmental Activities	Business-Type Activities	Total	
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ (572,295)	\$ -	\$ (572,295)	
Public safety	(2,046,195)	-	(2,046,195)	
Transportation and environmental protection	(686,870)	-	(686,870)	
Cultural and recreation	(418,466)	-	(418,466)	
Interest on long-term debt	(78,088)	-	(78,088)	
Total governmental activities	(3,801,914)	-	(3,801,914)	
Business-Type Activities:				
Sewer	-	345,365	345,365	
Total business-type activities	-	345,365	345,365	
Total primary government	(3,801,914)	345,365	(3,456,549)	
Component Unit:				
ABC Board				\$ 29,614
General Revenues:				
Taxes:				
Property taxes, levied for general purpose	1,897,657	-	1,897,657	-
Local option sales tax	870,757	-	870,757	-
Other taxes and licenses	753,829	-	753,829	-
Investment earnings, unrestricted	91,346	9,054	100,400	84
Miscellaneous, unrestricted	190,639	-	190,639	1,501
Total general revenues	3,804,228	9,054	3,813,282	1,585
Change in net position	2,314	354,419	356,733	31,199
Net Position:				
Beginning of year - July 1	6,125,631	7,166,625	13,292,256	155,241
End of year - June 30	\$ 6,127,945	\$ 7,521,044	\$ 13,648,989	\$ 186,440

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019

	<u>Major Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
	<u>General Fund</u>	<u>Permanent Fund</u>	<u>Governmental Funds</u>
Assets:			
Cash and investments	\$ 1,907,788	\$ 334,532	\$ 2,242,320
Restricted cash and investments	463,766	309,125	772,891
Taxes receivable, net	68,856	-	68,856
Other receivables, net	404,712	-	404,712
Total assets	<u>\$ 2,845,122</u>	<u>\$ 643,657</u>	<u>\$ 3,488,779</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable	\$ 77,826	\$ -	\$ 77,826
Accrued payroll and other liabilities	110,985	-	110,985
Total liabilities	<u>188,811</u>	<u>-</u>	<u>188,811</u>
Deferred Inflows of Resources:			
Property taxes receivable	68,856	-	68,856
Prepaid taxes	176	-	176
Total deferred inflows of resources	<u>69,032</u>	<u>-</u>	<u>69,032</u>
Fund Balances:			
Non-spendable:			
Perpetual maintenance	-	552,216	552,216
Restricted:			
Stabilization by state statute	404,712	-	404,712
Restricted for recreation endowment	-	91,441	91,441
Restricted, all other	463,766	-	463,766
Unassigned	1,718,801	-	1,718,801
Total fund balances	<u>2,587,279</u>	<u>643,657</u>	<u>3,230,936</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,845,122</u>	<u>\$ 643,657</u>	<u>\$ 3,488,779</u>

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

Total fund balances	\$ 3,230,936
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,833,432
Deferred inflows in the governmental funds are used to offset accounts receivable not expected to be available within 90 days of year-end. These receivables are a component of net assets in the Statement of Net Position.	68,856
Long-term liabilities and compensated absences are not due and payable in the current period, and therefore, are not reported in the funds.	(472,880)
Net pension liability LGERS	(700,915)
Total pension liability LEOSSA	(462,590)
Pension related deferrals	631,106
Net position of governmental activities	<u>\$ 6,127,945</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	<u>Major Fund</u>	<u>Non-Major Fund</u>	<u>Total</u>
	<u>General Fund</u>	<u>Permanent Fund</u>	<u>Governmental Funds</u>
Revenues:			
Ad valorem taxes	\$ 1,912,684	\$ -	\$ 1,912,684
Unrestricted intergovernmental revenues	1,316,701	-	1,316,701
Restricted intergovernmental revenues	538,569	-	538,569
Sales and services	476,395	-	476,395
Investment earnings	38,634	16,171	54,805
Miscellaneous	171,238	-	171,238
Total revenues	<u>4,454,221</u>	<u>16,171</u>	<u>4,470,392</u>
Expenditures:			
Current:			
General government	757,468	-	757,468
Public safety	1,921,845	-	1,921,845
Transportation and environmental protection	976,830	-	976,830
Cultural and recreational	395,392	-	395,392
Debt service:			
Principal retirement	139,409	-	139,409
Interest and other charges	78,088	-	78,088
Total expenditures	<u>4,269,032</u>	<u>-</u>	<u>4,269,032</u>
Revenues over (under) expenditures	<u>185,189</u>	<u>16,171</u>	<u>201,360</u>
Other Financing Sources (Uses):			
Sale of capital assets	38,757	-	38,757
Unrealized gain (loss) on investment	-	36,541	36,541
Total other financing sources (uses)	<u>38,757</u>	<u>36,541</u>	<u>75,298</u>
Net change in fund balances	223,946	52,712	276,658
Fund Balances:			
Beginning of year - July 1	<u>2,363,333</u>	<u>590,945</u>	<u>2,954,278</u>
End of year - June 30	<u>\$ 2,587,279</u>	<u>\$ 643,657</u>	<u>\$ 3,230,936</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2019

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different due to the following items:

Total net change in fund balances - total governmental funds	\$ 276,658
Property tax revenues and other fees and services in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds statement.	(15,027)
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(28,192)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	156,009
Pension expense - LEOSA	(56,715)
Pension expense- LGERS	(35,930)
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(414,542)
In the Statement of Activities, only the gain or loss on disposal of capital assets is reported, whereas, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed of.	(19,356)
Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	<u>139,409</u>
Total change in net position of governmental activities	<u>\$ 2,314</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2019

	General Fund			
	Budgeted Amounts		Actual	Variance from Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 2,043,613	\$ 2,043,613	\$ 1,912,684	\$ (130,929)
Unrestricted intergovernmental revenues	1,220,576	1,275,576	1,316,701	41,125
Restricted intergovernmental revenues	522,955	1,093,455	538,569	(554,886)
Sales and services	458,617	458,617	476,395	17,778
Investment earnings	8,550	8,550	38,634	30,084
Miscellaneous	11,248	154,787	171,238	16,451
Total revenues	<u>4,265,559</u>	<u>5,034,598</u>	<u>4,454,221</u>	<u>(580,377)</u>
Expenditures:				
Current:				
General government	646,183	757,874	757,468	406
Public safety	2,039,866	2,076,109	1,921,845	154,264
Transportation and environmental protection	977,845	1,036,072	976,830	59,242
Cultural and recreational	528,830	1,236,708	395,392	841,316
Debt service:				
Principal retirement	139,247	139,247	139,409	(162)
Interest and other charges	78,088	78,088	78,088	-
Total expenditures	<u>4,410,059</u>	<u>5,324,098</u>	<u>4,269,032</u>	<u>1,055,066</u>
Revenues over (under) expenditures	<u>(144,500)</u>	<u>(289,500)</u>	<u>185,189</u>	<u>474,689</u>
Other Financing Sources (Uses):				
Sale of capital assets	18,000	18,000	38,757	20,757
Transfers from other funds	101,500	181,500	-	(181,500)
Appropriated fund balance	25,000	90,000	-	(90,000)
Total other financing sources (uses)	<u>144,500</u>	<u>289,500</u>	<u>38,757</u>	<u>(250,743)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	223,946	<u>\$ 223,946</u>
Fund Balance:				
Beginning of year - July 1			<u>2,363,333</u>	
End of year - June 30			<u>\$ 2,587,279</u>	

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2019

	Business-Type Activities
	Major
	Sewer Fund
Assets:	
Current assets:	
Cash and cash equivalents	\$ 756,383
Accounts receivable, net	186,698
Restricted cash and cash equivalents	248,392
Total current assets	<u>1,191,473</u>
Non-current assets:	
Capital assets:	
Land and other non-depreciable assets	2,471,239
Other capital assets, net of depreciation	6,391,184
Total non-current assets	<u>8,862,423</u>
Total assets	<u>10,053,896</u>
Deferred Outflows of Resources:	
Pension deferrals	<u>11,281</u>
Liabilities:	
Current liabilities:	
Accounts payable	471,317
Accrued payroll	3,555
Current portion of long-term obligations	127,892
Total current liabilities	<u>602,764</u>
Non-current liabilities:	
Other non-current liabilities:	
Compensated absences	2,083
Net pension liability	14,583
Notes payable	1,924,028
Total non-current liabilities	<u>1,940,694</u>
Total liabilities	<u>2,543,458</u>
Deferred Inflows of Resources:	
Pension deferrals	<u>675</u>
Net Position:	
Net investment in capital assets	7,059,127
Unrestricted	<u>461,917</u>
Total net position	<u>\$ 7,521,044</u>

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION - PROPRIETARY FUND FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities
	Major
	Sewer Fund
Operating Revenues:	
Charges for services	\$ 944,280
Operating Expenses:	
Administration	101,714
Other operating expenses	748,673
Depreciation	338,017
Total operating expenses	1,188,404
Operating income (loss)	(244,124)
Non-Operating Revenues (Expenses):	
Interest income	9,054
Interest expense	(13,735)
Total non-operating revenues (expenses)	(4,681)
Change in net position before capital contribution	(248,805)
Capital contribution	603,224
Change in net position	354,419
Net Position:	
Beginning of year - July 1	7,166,625
End of year - June 30	\$ 7,521,044

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

	Business-Type Activities
	Major
	Sewer Fund
Cash Flows from Operating Activities:	
Cash received from customers	\$ 862,183
Cash paid for goods and services	(288,167)
Cash paid to employees for services	(100,575)
Net cash provided (used) by operating activities	473,441
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(2,247,047)
Capital contributions	603,224
Proceeds from debt issuance	22,796
Long-term debt payments	(127,660)
Interest paid	(13,735)
Net cash provided (used) for capital and related financing activities	(1,762,422)
Cash Flows from Investing Activities:	
Interest on investments	9,054
Net increase (decrease) in cash and cash equivalents	(1,279,927)
Cash and Cash Equivalents:	
Beginning of year - July 1	2,284,702
End of year - June 30	\$ 1,004,775
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (244,124)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	338,017
Changes in assets and liabilities:	
(Increase) decrease in deferred outflows of resources - pension	(4,074)
Increase (decrease) in net pension liability	5,034
(Increase) decrease in accounts receivable	(82,097)
Increase (decrease) in accounts payable and accrued liabilities	460,809
Increase (decrease) in accrued vacation pay	102
Increase (decrease) in deferred inflows of resources - pension	(226)
Total adjustments	717,565
Net cash provided (used) by operating activities	\$ 473,441

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

Town of Rutherfordton ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by state statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a Proprietary Fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative office located at Highway 221 South, Rutherfordton, NC 28139.

B. Basis of Presentation

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

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

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

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

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 and state-shared revenues. The primary expenditures are for public safety, street maintenance, and sanitation service.

The Town reports the following nonmajor governmental fund:

Permanent Fund. Pursuant to the authority granted by the North Carolina Session Law of 1981, Chapter 403, the Town Council adopted an ordinance creating a perpetual recreation trust fund. The fund is authorized to receive undesignated gifts, grants and bequests of tangible and intangible properties. The principal of the fund shall constitute a perpetual trust fund, and no part of the original principal shall be expended for any purpose.

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

Government-Wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and 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, such as ad valorem taxes, are recognized in the fiscal year for which the taxes are levied. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem 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.

Sales taxes and certain intergovernmental revenues, such as the utilities sales 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 Rutherford County and then remitted to and distributed by the state. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues.

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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 and enterprise funds. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds. The governing board must approve any revision of the original budget. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted. The Permanent Fund is not required to be budgeted.

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

Deposits and Investments

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

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

The Town's and the ABC Board's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, an SEC-registered (2a-7) government money market fund and the NCCMT Term Portfolio's securities are valued at fair value.

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

Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board considers all investments and other highly liquid debt instrument purchases with a maturity of three months or less to be cash and cash equivalents.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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. The police department receives revenue from the state from the illegal substance tax and these funds are restricted for use by the department. The Permanent Fund received donation of investment that restricts its use to the Permanent Fund. Cultural and recreation has cash that is restricted for culture and recreational uses only. The unexpended debt proceeds are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued.

Town of Rutherfordton - Restricted Cash	
Governmental Activities:	
General Fund:	
Streets	\$ 171,349
Public safety - police	9,365
Cultural and recreational	<u>283,052</u>
Total General Fund	463,766
Permanent Fund	309,125
Business-Type Activities:	
Sewer Fund	
Unspent debt proceeds	<u>248,392</u>
Total restricted cash	<u><u>\$ 1,021,283</u></u>

Ad Valorem Taxes Receivable

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

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.

Inventories and Prepaid Items

The inventories of the ABC board are valued at cost (first-in, first-out), which approximates market. It consists of products held for subsequent resale. The cost of this inventory is expensed when sold rather than purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

The Town began capitalizing public domain (“infrastructure”) capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems as of July 1, 2003. Infrastructure assets exceeding the Town’s capitalization threshold of \$500 will be reported as capital assets in the Statement of Net Position. General governmental infrastructure assets acquired prior to July 1, 2003 were not retroactively reported. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost.

Governmental fund capital assets of the Town are depreciated using the straight-line method over the assets’ estimated useful lives. These assets are reported in the Town’s basic financial statements net of accumulated depreciation. The estimated useful lives for the Town’s governmental capital assets are as follows:

Governmental Funds	
<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Building and improvements	15-50 years
Equipment and vehicles	5-15 years
Computer equipment	5 years

Proprietary fund capital assets of the Town are depreciated using the straight-line method over the assets’ estimated useful lives. These assets are reported in the Town’s basic financial statements net of accumulated depreciation. The estimated useful lives for the Town’s proprietary fund capital assets are as follows:

Proprietary Fund	
<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Pump stations and sewer lines	20-50 years
Wastewater treatment plant	10-40 years
Streets	10 years
Equipment	5-10 years

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Building	30 years
Store equipment	10 years
Leasehold improvements	5 years
Office equipment	10 years

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion: pension deferrals.

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet this criteria – property taxes receivable, prepaid taxes, and pension deferrals.

Compensated Absences

Each employee, except for police and fire, of the Town working the basic work week of 40 hours per week shall earn annual leave at the following rates:

<u>Years of Service</u>	<u>Accrued Per Year</u>
1-9	10 days per year
10+	15 days per year

Police department employees earn vacation leave at the following rate:

<u>Years of Service</u>	<u>Accrued Per Year</u>
1-9	96 hours per year
10+	144 hours per year

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Fire department employees earn vacation leave at the following rate:

<u>Years of Service</u>	<u>Accrued Per Year</u>
1-9	112 hours per year
10+	168 hours per year

Vacation leave earned by regular employees having a work week with fewer or greater than 40 hours per week shall be calculated in accordance with a formula set forth in the Town's policy. The results of the calculation will adjust the employees' accrual either up or down depending on their individual circumstance.

Vacation leave may be accumulated up to 30 days per year maximum. Vacation accumulated beyond this amount will automatically roll to sick leave at the end of the calendar year. If the employee separates from service, payment for accumulated annual leave shall not exceed 30 days. The Town records a liability for accrued vacation.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but 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 an obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Long-Term Obligations

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as other financing sources.

The Town's long-term debt for the sewer system improvements is carried within the Enterprise Fund. The debt service requirements for that debt are being met by sewer revenues.

Net Position/Fund Balances

Net Position

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

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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:

Non-Spendable Fund Balance

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

Perpetual Maintenance – cash and shares of common stock held in the Rutherfordton Recreation Trust Fund.

Restricted Fund Balance

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

Restricted for Stabilization by State Statute – portion of fund balance that is restricted by state statute (G.S. 159-8(a)).

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for public safety expenditures.

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

Restricted for Cultural and Recreation – portion of fund balance that is restricted by revenue source for downtown revitalization and for parks.

Restricted for Recreation Endowment – portion of fund balance that is restricted by revenue source for the Recreation Trust Fund.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Restricted fund balance at June 30, 2019 is as follows:

<u>Purpose</u>	<u>General Fund</u>	<u>Permanent Funds</u>	<u>Total Restricted</u>
Restricted, all other:			
Public safety	\$ 9,365	\$ -	\$ 9,365
Streets	171,349	-	171,349
Cultural and recreation	283,052	-	283,052
Recreation endowment	-	91,441	91,441
Total	<u>\$ 463,766</u>	<u>\$ 91,441</u>	<u>\$ 555,207</u>

Committed Fund Balance

Committed fund balance is the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body.

Assigned Fund Balance

Assigned fund balance is the portion of fund balance that the Town intends to use for specific purposes. The Town's governing body has the authority to assign fund balance. The Manager, as granted in the officially adopted budget ordinance, has been granted limited authority to assign fund balance.

Unassigned Fund Balance

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

The Town of Rutherfordton does not have a formal revenue spending policy. For purposes of fund balance classification, it is the practice of the Finance Officer to use restricted resources before any other designation of fund balance.

The Town of Rutherfordton has not adopted a minimum fund balance policy.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Defined Benefit Cost-Sharing Plans

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

2. Stewardship, Compliance, and Accountability

Non-Compliance with North Carolina General Statutes

Marketable securities held by the Town violate the investment regulations of G.S. 159-30. The marketable securities were gifted by citizens of the Town. Because of the tremendous growth potential of the securities, the donors requested that the Town retain the stock. The Town intends to honor the request and does not foresee disposing of the securities until it is believed that profits can be maximized.

3. Detail Notes on All Funds

A. Assets

Deposits

All the deposits of the Town and ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's and ABC Board's, agent in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and ABC Board, these deposits are considered to be held by the Town's and ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town and ABC Board, or their escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town and ABC Board under the Pooling Method, the potential exists for under- collateralization. This risk may increase in periods of high cash flows. However the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town and ABC Board comply with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Town and ABC Board do not have a formal policy for custodial credit risk for deposits.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

On June 30, 2019, the Town's deposits had a carrying amount of \$1,381,111 and a bank balance of \$1,481,755. For the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance was covered by the pooling method. At June 30, 2019, the Town's petty cash totaled \$3,054.

The carrying amount of the deposits for the ABC Board was \$82,185 and a bank balance of \$66,314. All of the bank balance of the ABC Board was covered by federal depository insurance.

Investments

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

Investment Type	Valuation Measurement	Fair Value	Less Than	Maturity	Rating
	Method		6 Months		
Dominion Resources Inc	Fair Value - Level 1	\$ 309,125	NA	Daily	Unrated
North Carolina Capital Management Trust Government Portfolio	Fair Value - Level 1	1,918,345	NA	NA	AAAm
North Carolina Capital Management Trust Term Portfolio*	Fair Value - Level 1	408,351	408,351	.11 years*	Unrated
Total		<u>\$ 2,635,821</u>			

**This is the duration of the Term Portfolio*

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

Interest Rate Risk – The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk – The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated.

The Town's investment in marketable securities is unrated. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2019. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Concentration of Credit Risk – The Town places no limit on the amount that the Town may invest in any one issuer. More than 5% of the Town’s investment are in the Dominion Resources, Inc. securities. This investment is 12% of the Town’s total investments.

The Rutherfordton Recreation Trust Fund (Fiduciary) holds 3,998 shares of common stock in Dominion Resources, Inc., received as a gift to the Trust. These stocks are being held according to the terms of the unitrust agreements and terms stipulated by the donors. The value at the date of the gift was \$28,660. At June 30, 2019, there is an unrealized gain to market value of \$309,125.

The marketable securities are in violation of G.S. 159-30.

At June 30, 2019, the ABC Board had no investments.

Receivables

At June 30, 2019, the Town’s accounts receivables and allowance for doubtful account balances were as follows:

	<u>Accounts</u>	<u>Taxes and Accrued Interest</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ -	\$ 99,645	\$ 404,712	\$ 504,357
Allowance for doubtful accounts	-	(30,789)	-	(30,789)
Total governmental activities	<u>\$ -</u>	<u>\$ 68,856</u>	<u>\$ 404,712</u>	<u>\$ 473,568</u>
Business-Type Activities:				
Sewer	\$ 135,409	\$ -	\$ 80,274	\$ 215,683
Allowance for doubtful accounts	(28,985)	-	-	(28,985)
Total business-type activities	<u>\$ 106,424</u>	<u>\$ -</u>	<u>\$ 80,274</u>	<u>\$ 186,698</u>

Due from other governments that is owed to the Town consists of the following:

Local option sales tax	\$ 227,601
Utility franchise tax	105,000
Sales tax refund	36,785
Due from County	29,059
Other	86,541
Total	<u>\$ 484,986</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Capital Assets

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

	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	<u>\$ 292,254</u>	<u>\$ 76,980</u>	<u>\$ -</u>	<u>\$ 369,234</u>
Depreciable Capital Assets:				
Buildings and building improvements	6,495,331	-	-	6,495,331
Equipment and vehicles	4,135,106	79,029	73,082	4,141,053
Computer equipment	<u>79,834</u>	<u>-</u>	<u>-</u>	<u>79,834</u>
Total depreciable capital assets	<u>10,710,271</u>	<u>79,029</u>	<u>73,082</u>	<u>10,716,218</u>
Less Accumulated Depreciation:				
Buildings	3,845,872	166,367	-	4,012,239
Equipment and vehicles	2,980,565	238,780	53,726	3,165,619
Computer equipment	<u>64,767</u>	<u>9,395</u>	<u>-</u>	<u>74,162</u>
Total accumulated depreciation	<u>6,891,204</u>	<u>\$ 414,542</u>	<u>\$ 53,726</u>	<u>7,252,020</u>
Total depreciable capital assets, net	<u>3,819,067</u>			<u>3,464,198</u>
Governmental activities capital assets, net	<u>\$ 4,111,321</u>			<u>\$ 3,833,432</u>

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

General government	\$ 25,898
Public safety	129,089
Transportation and environmental	162,477
Culture and recreation	<u>97,078</u>
Total	<u>\$ 414,542</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>
Business-Type Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 18,750	\$ -	\$ -	\$ 18,750
Construction in progress	<u>246,781</u>	<u>2,205,708</u>	<u>-</u>	<u>2,452,489</u>
Total non-depreciable capital assets	<u>265,531</u>	<u>2,205,708</u>	<u>-</u>	<u>2,471,239</u>
Depreciable Capital Assets:				
Pump stations and sewer lines	5,540,313	-	-	5,540,313
Wastewater treatment plant	5,189,291	-	-	5,189,291
Streets	6,460	23,889	-	30,349
Equipment	<u>574,187</u>	<u>17,450</u>	<u>-</u>	<u>591,637</u>
Total depreciable capital assets	<u>11,310,251</u>	<u>41,339</u>	<u>-</u>	<u>11,351,590</u>
Less Accumulated Depreciation:				
Pump stations and sewer lines	1,804,932	136,118	-	1,941,050
Wastewater treatment plant	2,590,188	142,680	-	2,732,868
Streets	6,460	398	-	6,858
Equipment	<u>220,809</u>	<u>58,821</u>	<u>-</u>	<u>279,630</u>
Total accumulated depreciation	<u>4,622,389</u>	<u>\$ 338,017</u>	<u>\$ -</u>	<u>4,960,406</u>
Total depreciable capital assets, net	<u>6,687,862</u>			<u>6,391,184</u>
Business-type activities capital assets, net	<u>\$ 6,953,393</u>			<u>\$ 8,862,423</u>

Construction Commitments

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

<u>Project</u>	<u>Spent-to-Date</u>	<u>Remaining Commitment</u>
Charlotte Road Sewer projects	\$ 153,298	\$ 34,702
Tryon Equestrian Salamander		
Hotel Sewer projects	540,617	87,480
Public works building	<u>1,758,574</u>	<u>141,391</u>
Total	<u>\$ 2,452,489</u>	<u>\$ 263,573</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Discretely Presented Component Units:

The capital asset activity of the ABC Board for the year ended June 30, 2019 was as follows:

	<u>July 1, 2018</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2019</u>
Non-Depreciable Capital Assets:				
Land	\$ 5,098	\$ -	\$ -	\$ 5,098
Depreciable Capital Assets:				
Building	173,707	1,819	-	175,526
Store equipment	69,935	-	-	69,935
Office equipment	16,042	-	-	16,042
Leasehold improvements	87,977	-	-	87,977
Total depreciable capital assets	<u>347,661</u>	<u>1,819</u>	<u>-</u>	<u>349,480</u>
Less Accumulated Depreciation:				
Building	173,122	302	-	173,424
Store equipment	68,509	634	-	69,143
Office equipment	14,880	496	-	15,376
Leasehold improvements	69,162	2,171	-	71,333
Total accumulated depreciation	<u>325,673</u>	<u>\$ 3,603</u>	<u>\$ -</u>	<u>329,276</u>
Total depreciable capital assets, net	<u>21,988</u>			<u>20,204</u>
 ABC Board capital assets, net	 <u>\$ 27,086</u>			 <u>\$ 25,302</u>

B. Liabilities

Payables

Payables at the government-wide level at June 30, 2019 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
Governmental Activities:			
General	<u>\$ 77,826</u>	<u>\$ 110,985</u>	<u>\$ 188,811</u>
Business-Type Activities:			
Sewer	<u>\$ 471,317</u>	<u>\$ 3,555</u>	<u>\$ 474,872</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Pension Plan Obligations

Local Governmental Employees' Retirement System

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

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

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

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Rutherfordton employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Rutherfordton's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.75% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Rutherfordton were \$150,059 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 \$715,498 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 0.03016%, which was an decrease of 0.00020% from its proportion measured as of June 30, 2017.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

For the year ended June 30, 2019, the Town recognized pension expense of \$186,725. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 110,384	\$ 3,704
Changes of assumptions	189,866	-
Net difference between projected and actual earnings on pension plan investment	98,217	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	3,632	20,500
Town contributions subsequent to the measurement date	<u>150,059</u>	<u>-</u>
Total	<u><u>\$ 552,158</u></u>	<u><u>\$ 24,204</u></u>

\$150,059 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2020.

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

Year Ending June 30	Amount
2020	\$ 184,407
2021	118,342
2022	20,938
2023	<u>54,208</u>
Total	<u><u>\$ 377,895</u></u>

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

Inflation	3.0 percent
Salary increases	3.5 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

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

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

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

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

The information above is based on 30-year expectations developed with the consulting actuary for the 2018 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.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

Sensitivity of the Town's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate. The following presents the Town's proportionate share of the net pension liability (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:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Net pension liability	\$ 1,718,689	\$ 715,498	\$ (122,783)

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

Law Enforcement Officers Special Separation Allowance

Plan Description. The Town of Rutherfordton 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 years or more years of creditable service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

Retirees receiving benefits	1
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	14
Total	<u>15</u>

A separate report was not issued for the plan.

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 to be made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan.

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

Actuarial Assumptions. The entry age normal 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 the TPL is the S&P Municipal Bond 20-Year High Grade Rate Index.

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ended December 31, 2014.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Deaths After Retirement (Healthy): RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 104% for males and 100% for females.

Deaths Before Retirement: RP-2014 Employee base rates projected to 2015 using MP-2015 projected forward generationally from 2015 using MP-2015.

Deaths After Retirement (Beneficiary): RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 123% for males and females.

Deaths After Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 103% for males and 99% females.

Contributions. The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay-as-you-go basis through appropriations made in the General Fund operating budget. 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 finance through investment earnings. The Town paid \$6,760 as benefits came due for the reporting period.

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

At June 30, 2019, the Town reported a pension liability of \$462,590. 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 actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$52,491.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 116,437	\$ -
Changes of assumptions	14,675	17,354
Total	<u>\$ 131,112</u>	<u>\$ 17,354</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

There were no benefits paid subsequent to the measurement date have been reported as deferred outflows of resources that will be recognized as a decrease of the total pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30	Amount
2020	\$ 22,454
2021	22,454
2022	22,454
2023	23,331
2024	19,094
Thereafter	3,971
Total	<u>\$ 113,758</u>

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

	1% Decrease (2.64%)	Discount Rate (3.64%)	1% Increase (4.64%)
Total pension liability	<u>\$ 497,488</u>	<u>\$ 462,590</u>	<u>\$ 431,172</u>

Schedules of Changes in Total Pension Liability Law Enforcement Officer's Special Separation Allowance

	<u>2019</u>
Beginning balance	\$ 321,882
Service cost	19,972
Interest on the total pension liability	10,065
Difference between expected and actual experience	133,731
Changes of assumptions and other inputs	(16,300)
Benefit payments	(6,760)
Ending balance of the total pension liability	<u>\$ 462,590</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Changes of Assumptions. Changes of assumptions and other inputs reflect a change in the discount rate from 3.16 percent at June 30, 2017 to 3.64 percent at June 30, 2018.

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 on 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 RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	\$ 186,725	\$ 52,491	\$ 239,216
Pension liability	715,498	462,590	1,178,088
Proportionate share of the net pension liability	0.03016%	NA	-

Deferred Outflows of Resources

Differences between expected and actual experience	\$ 110,384	\$ 116,437	\$ 226,821
Changes of assumptions	189,866	14,675	204,541
Net difference between projected and actual earnings on pension plan investments	98,217	-	98,217
Changes in proportion and differences between Town contributions and proportionate share of contributions	3,632	-	3,632
Town contributions (LGERS) and benefit payments and administration costs (LEOSSA) subsequent to the measurement date	150,059	-	150,059
	<u>\$ 552,158</u>	<u>\$ 131,112</u>	<u>\$ 683,270</u>

Deferred Inflows of Resources

Differences between expected and actual experience	\$ 3,704	\$ -	\$ 3,704
Changes of assumptions	-	17,354	17,354
Changes in proportion and differences between Town contributions and proportionate share of contributions	20,500	-	20,500
	<u>\$ 24,204</u>	<u>\$ 17,354</u>	<u>\$ 41,558</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Supplemental Retirement Income Plan

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 all employees of the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The state's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

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

The Town made contributions of \$30,959 for the reporting year. No amounts were forfeited.

Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of the monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the state. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

Deferred Outflows and Inflows of Resources

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

Pension deferrals	\$ 552,158
LEOSSA deferrals	131,112
Total	<u>\$ 683,270</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Property taxes receivable	\$ -	\$ 68,856
Prepaid taxes	176	176
Pension deferrals	24,204	-
LEOSSA deferrals	17,354	-
Total	<u>\$ 41,734</u>	<u>\$ 69,032</u>

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages these risks through an insurance program in place with U.S. Specialty Insurance Company that has a specialized Municipality Program. Through this program, the Town obtains general liability and auto liability coverage of \$1,000,000 per occurrence; property coverage up to the total insurance values of the property policy. The workers compensation coverage up to the statutory limits of North Carolina, is provided by Bitco Insurance Company. The Town provides health insurance for employees. The current plan is the North Carolina State Health plan through Blue Cross Blue Shield.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the last three fiscal years. The Town does carry a blanket limit of \$1,000,000 for flood insurance and a blanket \$1,000,000 limit for earthquake insurance.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more of the Town's funds at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000. The tax collector is bonded for \$15,000. The remaining employees that have access to funds are bonded under a blanket employee dishonesty bond for \$25,000.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Long-Term Obligations

Capital Leases

The Town has entered into agreement to lease certain equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception.

The agreement was executed on October 16, 2015 to lease several vehicles and motorized equipment and requires 10 semi-annual payments of \$45,088. Title passes to the Town at the end of the lease term.

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Vehicles and motorized equipment	\$ <u>426,148</u>	\$ <u>155,418</u>	\$ <u>270,730</u>

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2019 were as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2020	\$ 90,177
2021	<u>37,574</u>
Total minimum lease payments	127,751
Less: amount representing interest	<u>(1,929)</u>
Present value of the minimum lease payments	\$ <u>125,822</u>

Installment Purchase

On September 12, 2012, the Town executed a direct placement installment purchase agreement in the amount of \$509,981 for the purchase of a fire truck. This agreement bears interest at 2.08% and calls for monthly principal and interest payments of \$4,711 beginning in October 2012 through September 2022. The fire truck is pledged as collateral for the debt. In the event of a default, the Town agrees to pay to the purchaser, on demand, all amounts owing by the Town under the related agreements, and such amounts shall, thereafter, bear interest at the rate of 12% per annum or the maximum rate permitted by applicable law, whichever is less.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Annual debt service payments of the direct placement installment purchase as of June 30, 2019, including \$6,220 of interest, are as follows:

Year Ending June 30	Principal	Interest
2020	\$ 53,344	\$ 3,185
2021	54,465	2,065
2022	55,608	921
2023	13,009	49
Total	<u>\$ 176,426</u>	<u>\$ 6,220</u>

Business-Type Activities

Installment Purchases

On June 12, 2006, the Town executed a promissory note in the amount of \$591,952 with the State of North Carolina for a loan from North Carolina Water Pollution Control Revolving Fund to finance the retrofit of the wastewater treatment plant. This note bears interest at 2.195% and calls for semi-annual payments of interest and annual payments of principal in May of each year beginning in May 2009 through May 2026. \$ 218,088

On June 13, 2018, the Town executed a promissory note in the amount of \$1,783,298 with the State of North Carolina for a loan from the North Carolina to finance the construction of a municipal building. This note bears interest at 4.48% and calls for semi-annual payments of interest and annual payments of principal in June of each year beginning in June 2019 through June 2038. 1,694,133
\$ 1,912,221

The Town's outstanding notes from direct borrowings related to business-type activities of \$218,088 contain a provision that in an event of default, may require the unit to prepay the note in full or may result in the State withholding any other monies due to the unit of local government. Notes are secured and payable solely from system revenues or other available funds, and not secured by a pledge of full faith and credit.

The Town's outstanding notes from direct placements related to business-type activities of \$1,694,133 is secured with collateral of the municipal building. The note contains a provision that in an event of default, outstanding amounts become immediately due if the Town is unable to make payment.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Annual debt service payments of the direct placement and the direct borrowing installment purchases as of June 30, 2019, including \$759,146 of interest, are as follows:

Year Ending June 30	Principal	Interest
2020	\$ 120,320	\$ 79,686
2021	120,320	75,007
2022	120,320	70,329
2023	120,320	65,650
2024	120,320	60,972
2025-2029	508,135	236,734
2030-2034	445,825	134,817
2035-2038	356,661	35,951
Total	<u>\$ 1,912,221</u>	<u>\$ 759,146</u>

Revolving Loan Payable

On June 28, 2018, the Town was approved for a direct borrowing with a maximum loan amount of \$146,807 from the U.S. Department of Environmental Quality for a Sanitary Sewer Project. The loan bears interest at a rate of 0% per annum and calls for annual payments of principal in May of each year beginning in May 2019 through May 2038. The Town agrees that any other monies due to the unit of local government from the State may be withheld by the State and applied to the payment of this obligation whenever the unit fails to pay any payment of principal or interest on this note when due.

June 30	Principal	Interest
2020	\$ 7,340	\$ -
2021	7,340	-
2022	7,340	-
2023	7,340	-
2024	7,340	-
2025-2029	36,702	-
2030-2034	36,702	-
2035-2038	29,363	-
Total	<u>\$ 139,467</u>	<u>\$ -</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Net Investment in Capital Assets

Net investment in capital assets as of June 30, 2019 is computed as follows:

	Governmental Activities	Business-Type Activities
Capital assets, net of accumulated depreciation	\$ 3,833,432	\$ 8,862,423
Unspent debt proceeds	-	248,392
Long-term debt	(302,248)	(2,051,688)
Net investment in capital assets	<u>\$ 3,531,184</u>	<u>\$ 7,059,127</u>

A summary of changes in long-term debt are as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Current Portion of Balance
Governmental Activities:					
Direct placements	\$ 228,673	\$ -	\$ (52,247)	\$ 176,426	\$ 53,344
Capital lease	212,984	-	(87,162)	125,822	88,542
Total pension liability - LEOSSA	321,882	140,708	-	462,590	-
Net pension liability - LGERS	454,269	246,646	-	700,915	-
Compensated absences	142,440	70,309	(42,117)	170,632	17,063
Total	<u>\$ 1,360,248</u>	<u>\$ 457,663</u>	<u>\$ (181,526)</u>	<u>\$ 1,636,385</u>	<u>\$ 158,949</u>
Business-Type Activities:					
Direct placements and					
direct borrowings - water lines	\$ 2,032,541	\$ -	\$ (120,320)	\$ 1,912,221	\$ 120,320
Direct borrowings - Revolving loan	124,011	22,796	(7,340)	139,467	7,340
Net pension liability - LGERS	9,549	5,034	-	14,583	-
Compensated absences	2,213	102	-	2,315	232
Total	<u>\$ 2,168,314</u>	<u>\$ 27,932</u>	<u>\$ (127,660)</u>	<u>\$ 2,068,586</u>	<u>\$ 127,892</u>

Compensated absences generally have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned.

At June 30, 2019, the Town had a legal debt margin of \$24,347,712.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

C. Fund Balance

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

Total fund balance - General Fund	\$ 2,587,279
Less:	
Stabilization by state statute	<u>(404,712)</u>
Total available fund balance	<u>\$ 2,182,567</u>

D. Broad River Water Authority

The Broad River Water Authority has been organized pursuant to the provisions of Chapter 162A, Article 1, of the North Carolina Statutes. The Water Authority was organized to purchase and management a water system to provide water services to the citizens of Rutherford County, Town of Rutherfordton, Town of Spindale and Town of Ruth. The political subdivisions of the Authority are Rutherford County, Town of Rutherfordton, Town of Spindale, and Town of Ruth. Each political subdivision shall be allowed to appoint two members of the Authority. The Town, according to 162A-16 is authorized to make contributions or advances to an authority to provide for preliminary expenses of such Authority. The Town of Rutherfordton joined the Broad River Water Authority on August 3, 1999.

E. Federal and State Assisted Programs

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

F. Claims, Judgments and Contingent Liabilities

The Town is periodically involved in legal actions and claims arising in the normal course of operations. At June 30, 2019, the Town is not involved in any legal action that would have a material effect upon the financial position of the Town.

G. Other Matters

The Rutherfordton Golf Club, Inc. is a golf course located on property owned by the Town. The property is leased to the golf club for \$1 annually. The golf club is governed by a Board that is appointed and serves independently of the Town. The Town, in conjunction with the recreation trust fund, paid expenses for the golf club of \$14,459 and \$18,043 in 2019 and 2018, respectively.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Interlocal Agreement with Polk County

On September 8, 2014, the Town entered into an interlocal agreement with Polk County to allow the Town to provide wastewater collection, treatment and transport to an equestrian center being developed in Polk County. The system was completed and placed in service during the fiscal year 2015.

Interlocal Agreement with Thermal Belt Rail Trail

On August 30, 2017, the Town entered into an interlocal agreement with Rutherford Rail Development Corporation ("RRDC"), Rutherford County, the Town of Forest City, the Town of Ruth, and the Town of Spindale. The municipalities and the County have each entered into a separate lease agreement with RRDC for the portion of the Rail Corridor within their respective jurisdictions. The purpose of the lease agreements is to preserve and improve the Rail Corridor for future railroad use, to encourage economic development in Rutherford County.

4. Subsequent Event

On October 8, 2019, the Town entered into a municipal lease and option agreement in the amount of \$482,565 for the purchase of a new fire truck.

REQUIRED SUPPLEMENTAL INFORMATION

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TOWN OF RUTHERFORDTON, NORTH CAROLINA

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAST THREE FISCAL YEARS**

	2019	2018	2017
Beginning balance	\$ 321,882	\$ 276,871	\$ 268,039
Service cost	19,972	17,238	17,539
Interest on the total pension liability	10,065	10,475	9,373
Differences between expected and actual experience in the measurement of the total pension liability	133,731	6,341	-
Changes of assumptions or other inputs	(16,300)	21,941	(7,096)
Benefit payments	(6,760)	(10,984)	(10,984)
Ending balance of the total pension liability	<u>\$ 462,590</u>	<u>\$ 321,882</u>	<u>\$ 276,871</u>

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

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

TOWN OF RUTHERFORDTON, NORTH CAROLINA**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL****LAST THREE FISCAL YEARS**

	2019	2018	2017
Total pension liability	\$ 462,590	\$ 321,882	\$ 276,871
Covered payroll	631,697	621,695	623,041
Total pension liability as a percentage of covered payroll	73.23%	51.77%	44.44%

Notes to the Schedules:

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

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

TOWN OF RUTHERFORDTON, NORTH CAROLINA
**TOWN OF RUTHERFORDTON'S PROPORTIONATE SHARE
 OF NET PENSION LIABILITY (ASSET)
 REQUIRED SUPPLEMENTARY INFORMATION
 LAST SIX FISCAL YEARS***

Local Government Employees' Retirement System						
	2019	2018	2017	2016	2015	2014
Town of Rutherfordton's proportion of the net pension liability (asset) (%)	0.03016%	0.03036%	0.02903%	0.03033%	0.02908%	0.03190%
Town of Rutherfordton's proportion of the net pension liability (asset) (\$)	\$ 715,498	\$ 463,818	\$ 616,115	\$ 136,120	\$ (171,498)	\$ 384,517
Town of Rutherfordton's covered payroll	1,756,855	1,792,807	1,666,634	1,606,643	1,505,579	1,605,467
Town of Rutherfordton's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	40.73%	25.87%	36.97%	8.47%	-11.39%	23.95%
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

TOWN OF RUTHERFORDTON, NORTH CAROLINA**TOWN OF RUTHERFORDTON'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST SIX FISCAL YEARS****Local Government Employees' Retirement System**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 150,059	\$ 137,641	\$ 136,129	\$ 115,344	\$ 115,772	\$ 107,555
Contributions in relation to the contractually required contribution	<u>150,059</u>	<u>137,641</u>	<u>136,129</u>	<u>115,344</u>	<u>115,772</u>	<u>107,555</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 1,858,690	\$ 1,756,855	\$ 1,792,807	\$ 1,666,634	\$ 1,606,643	\$ 1,505,579
Contributions as a percentage of covered payroll	8.07%	7.83%	7.59%	6.92%	7.21%	7.14%

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

INDIVIDUAL FUND SCHEDULES

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TOWN OF RUTHERFORDTON, NORTH CAROLINA

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - GENERAL FUND BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2019

	2019		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/(Under)</u>
Revenues:			
Ad Valorem Taxes:			
Taxes - General Fund		\$ 1,899,197	
Penalties, interest, and advertising		13,487	
Total	\$ 2,043,613	1,912,684	\$ (130,929)
Unrestricted Intergovernmental Revenues:			
Local option sales tax		870,757	
ABC profit distribution		49,263	
Utility sales tax		396,201	
Beer and wine tax		480	
Total	1,275,576	1,316,701	41,125
Restricted Intergovernmental Revenues:			
Special assessments - downtown revitalization		11,317	
State grants		156,977	
Powell Bill allocation		133,078	
Federal grants		47,383	
State distribution for drug enforcement		260	
Solid waste tax disbursement		2,918	
SAFER grant		167,118	
ABC funds for law enforcement		19,518	
Total	1,093,455	538,569	(554,886)
Sales and Services:			
Fire district revenue		296,568	
Cable TV franchise		7,841	
Solid waste user fee		99,532	
Recycling & refuse		15	
Crestview park rental		2,028	
Clubhouse revenue		18,072	
Federal building lease		20,105	
Police reports		100	
Other fees		32,134	
Total	458,617	476,395	17,778
Investment Earnings	8,550	38,634	30,084

TOWN OF RUTHERFORDTON, NORTH CAROLINA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GENERAL FUND BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

	2019		
	Budget	Actual	Variance Over/(Under)
Miscellaneous:			
Other		171,238	
Total	154,787	171,238	16,451
 Total revenues	 5,034,598	 4,454,221	 (580,377)
 Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits		10,500	
Operating expenditures		4,856	
Total	16,500	15,356	1,144
 Administration:			
Salaries and employee benefits		242,012	
Operating expenditures		245,644	
Capital outlay		74,284	
Total	556,757	561,940	(5,183)
 Main Street Programs and Zoning:			
Operating expenditures		142,306	
Capital outlay		37,866	
Total	184,617	180,172	4,445
 Total general government	 757,874	 757,468	 406
 Public Safety:			
Police:			
Salaries and employee benefits		905,842	
Operating expenditures		95,304	
Capital outlay		93,371	
Total	1,099,241	1,094,517	4,724
 Fire:			
Salaries and employee benefits		637,695	
Operating expenditures		167,250	
Capital outlay		22,383	
Total	976,868	827,328	149,540
 Total public safety	 2,076,109	 1,921,845	 154,264

TOWN OF RUTHERFORDTON, NORTH CAROLINA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GENERAL FUND BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

	2019		
	Budget	Actual	Variance Over/(Under)
Public Works:			
Salaries and employee benefits		566,108	
Operating expenditures		278,315	
Capital outlay		32,032	
Total	901,572	876,455	25,117
Powell Bill:			
Operating expenditures		100,375	
Total	134,500	100,375	34,125
Total transportation and environmental protection	1,036,072	976,830	59,242
Cultural and Recreational:			
Library:			
Salaries and employee benefits		163,106	
Operating expenditures		22,340	
Total	190,736	185,446	5,290
Parks:			
Operating expenditures		89,236	
Capital outlay		60,256	
Total	896,969	149,492	747,477
Federal Grants:			
Operating expenditures	47,503	47,383	120
Trails and Greenways:			
Operating expenditures		13,071	
Total	101,500	13,071	88,429
Total cultural and recreational:	1,236,708	395,392	841,316
Debt Service:			
Principal retirement		139,409	
Interest		78,088	
Total debt service	217,335	217,497	(162)

TOWN OF RUTHERFORDTON, NORTH CAROLINA

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - GENERAL FUND BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

	2019		
	Budget	Actual	Variance Over/(Under)
Total expenditures	<u>5,324,098</u>	<u>4,269,032</u>	<u>1,055,066</u>
Revenues over (under) expenditures	<u>(289,500)</u>	<u>185,189</u>	<u>474,689</u>
Other Financing Sources (Uses):			
Sale of capital assets	18,000	38,757	20,757
Transfers from other funds	181,500	-	(181,500)
Appropriated fund balance	<u>90,000</u>	<u>-</u>	<u>(90,000)</u>
Total other financing sources (uses)	<u>289,500</u>	<u>38,757</u>	<u>(250,743)</u>
Net changes in fund balance	<u>\$ -</u>	<u>223,946</u>	<u>\$ 223,946</u>
Fund Balance:			
Beginning of year - July 1		<u>2,363,333</u>	
End of year - June 30		<u>\$ 2,587,279</u>	

TOWN OF RUTHERFORDTON, NORTH CAROLINA

SCHEDULE OF REVENUES AND EXPENDITURES

BUDGET AND ACTUAL (NON-GAAP)

SEWER FUND

FOR THE YEAR ENDED JUNE 30, 2019

	2019			2018
	Budget	Actual	Variance Over/Under	Actual
Revenues:				
Operating revenues:				
Fees for service	\$ 980,660	\$ 944,280	\$ (36,380)	\$ 971,824
Non-operating revenues:				
Miscellaneous	63,975	62,274	(1,701)	-
Interest income	1,900	5,790	3,890	3,485
Total revenues	<u>1,046,535</u>	<u>1,012,344</u>	<u>(34,191)</u>	<u>975,309</u>
Expenditures:				
Operations:				
Salaries and employee benefits	108,844	101,082	7,762	83,063
Other operating expenditures	754,952	748,673	6,279	658,896
Capital outlay	41,339	41,339	-	251,806
Total operating expenditures	<u>905,135</u>	<u>891,094</u>	<u>14,041</u>	<u>993,765</u>
Debt Service:				
Principal retirement	127,660	127,660	-	31,155
Interest paid	13,740	13,735	5	6,155
Total debt service	<u>141,400</u>	<u>141,395</u>	<u>5</u>	<u>37,310</u>
Total expenditures	<u>1,046,535</u>	<u>1,032,489</u>	<u>14,046</u>	<u>1,031,075</u>
Revenue over (under) expenditures	<u>\$ -</u>	<u>(20,145)</u>	<u>\$ (20,145)</u>	<u>\$ (55,766)</u>

Reconciliation of Modified Accrual Basis to Full Accrual Basis:

Reconciling items:

Capital outlay, capitalized	41,339
Principal paid on long-term debt	127,660
Change in accrued vacation	102
Income from capital projects consolidation	544,214
Increase in deferred outflows of resources - pensions	4,074
Decrease in deferred inflows of resources - pensions	226
Increase in net pension liability	(5,034)
Depreciation	<u>(338,017)</u>
Total reconciling items	<u>374,564</u>
Change in net position	<u>\$ 354,419</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA

SEWER IMPROVEMENTS PROJECT FUND
 SCHEDULE OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2019

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
Tryon Equestrian Salamander Hotel Sewer Project					
TIEC Contribution	\$ 268,097	\$ -	\$ 268,097	\$ 268,097	\$ -
North Carolina Commerce Rural Economic Development	360,000	-	272,853	272,853	(87,147)
Investment earnings	-	373	3,158	3,531	3,531
Total revenues	<u>628,097</u>	<u>373</u>	<u>544,108</u>	<u>544,481</u>	<u>(83,616)</u>
Expenditures:					
Charlotte Road Sewer Projects					
Professional services	24,000	4,300	1,000	5,300	18,700
Construction	<u>164,000</u>	<u>124,631</u>	<u>23,367</u>	<u>147,998</u>	<u>16,002</u>
Total	<u>188,000</u>	<u>128,931</u>	<u>24,367</u>	<u>153,298</u>	<u>34,702</u>
Tryon Equestrian Salamander Hotel Sewer Project					
Professional services	68,570	22,250	1,760	24,010	44,560
Construction	<u>559,527</u>	<u>-</u>	<u>516,607</u>	<u>516,607</u>	<u>42,920</u>
Total	<u>628,097</u>	<u>22,250</u>	<u>518,367</u>	<u>540,617</u>	<u>87,480</u>
Total expenditures	<u>816,097</u>	<u>151,181</u>	<u>542,734</u>	<u>693,915</u>	<u>122,182</u>
Revenues over (under) expenditures	<u>(188,000)</u>	<u>(150,808)</u>	<u>1,374</u>	<u>(149,434)</u>	<u>38,566</u>
Other Financing Sources (Uses):					
Transfer from Sewer Fund	21,115	-	-	-	(21,115)
Proceeds from debt issuance	<u>166,885</u>	<u>124,011</u>	<u>22,796</u>	<u>146,807</u>	<u>(20,078)</u>
Total other financing sources (uses)	<u>188,000</u>	<u>124,011</u>	<u>22,796</u>	<u>146,807</u>	<u>(41,193)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (26,797)</u>	<u>\$ 24,170</u>	<u>\$ (2,627)</u>	<u>\$ (2,627)</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA

PUBLIC WORKS BUILDING PROJECT FUND
 SCHEDULE OF REVENUES AND EXPENDITURES
 BUDGET AND ACTUAL (NON-GAAP)
 FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2019

		Actual			
	Project Authorization	Prior Years	Current Year	Total to Date	Variance Over/Under
Revenues:					
Investment earnings	\$ -	\$ -	\$ 106	\$ 106	\$ 106
Expenditures:					
Professional services	122,500	68,600	25,239	93,839	28,661
Construction	1,777,465	27,000	1,637,735	1,664,735	112,730
Total expenditures	1,899,965	95,600	1,662,974	1,758,574	141,391
Revenues over (under) expenditures	(1,899,965)	(95,600)	(1,662,868)	(1,758,468)	141,497
Other Financing Sources (Uses):					
Transfer from Sewer Fund	50,000	-	-	-	(50,000)
Transfer from General Fund	50,000	-	-	-	(50,000)
Debt proceeds	1,799,965	1,783,298	-	1,783,298	(16,667)
Total other financing sources (uses)	1,899,965	1,783,298	-	1,783,298	(116,667)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 1,687,698	\$ (1,662,868)	\$ 24,830	\$ 24,830

TOWN OF RUTHERFORDTON, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE - GENERAL FUND
JUNE 30, 2019

Fiscal Year	Uncollected Balance July 1, 2018	Additions	Collections and Credits	Uncollected Balance June 30, 2019
2018-2019	\$ -	\$ 1,892,479	\$ 1,863,677	\$ 28,802
2017-2018	31,554	-	16,811	14,743
2016-2017	19,242	-	6,986	12,256
2015-2016	13,640	-	5,132	8,508
2014-2015	10,997	-	4,879	6,118
2013-2014	14,429	-	3,195	11,234
2012-2013	8,811	-	3,310	5,501
2011-2012	6,358	-	1,815	4,543
2010-2011	5,130	-	1,310	3,820
2009-2010	4,817	-	697	4,120
2008-2009	4,513	-	4,513	-
Total	\$ 119,491	\$ 1,892,479	\$ 1,912,325	99,645
Less: allowance for uncollectible accounts: General Fund				<u>(30,789)</u>
Ad valorem taxes receivable net: General Fund				<u>\$ 68,856</u>
Reconciliation with Revenues:				
Ad valorem taxes - General Fund				\$ 1,899,197
Reconciling items:				
Interest				13,487
Other miscellaneous adjustments				(4,872)
Amounts written off per statute of limitations				<u>4,513</u>
Total collections and credits				<u>\$ 1,912,325</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2019

	Town-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 338,747,213	0.567	\$ 1,920,697	\$ 1,752,958	\$ 167,739
Discoveries:					
Current year taxes	218,399	0.567	1,238	1,238	-
Abatements	<u>(5,195,016)</u>	0.567	<u>(29,456)</u>	<u>(29,456)</u>	<u>-</u>
Total property valuation	<u>\$ 333,770,596</u>				
Net Levy			1,892,479	1,724,740	167,739
Uncollected taxes at June 30, 2019			<u>(28,802)</u>	<u>(28,802)</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 1,863,677</u>	<u>\$ 1,695,938</u>	<u>\$ 167,739</u>
Current Levy Collection Percentage			<u>98.48%</u>	<u>98.33%</u>	<u>100.00%</u>

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COMPLIANCE

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit Of Financial Statements Performed In Accordance With Government Auditing Standards

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable of the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Rutherfordton, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 11, 2019. Our report includes a reference to other auditors who audited the financial statements of the Town of Rutherfordton ABC Board as described in our report on the Town of Rutherfordton's financial statements. The financial statements of the Town of Rutherfordton ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or 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 have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002, and 2019-003 that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Rutherfordton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings and Responses as item 2019-002.

Town of Rutherfordton's Responses to Findings

The Town of Rutherfordton's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 11, 2019

TOWN OF RUTHERFORDTON, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2019

1. Summary of Auditor's Results

Financial Statements

Type of report the auditor issued on
whether the financial statements were
prepared in accordance to GAAP:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? X Yes No
- Significant deficiencies identified? Yes X None reported

Non-compliance material to financial
statements noted?

 X Yes No

TOWN OF RUTHERFORDTON, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2019

2. Findings Related to the Audit of the Basic Financial Statements

Material Weakness

Finding 2019-001

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Due to turnover of key positions in the current year, there are inherent limitations to the segregation of duties among Town personnel relating to cash receipts and access to the general ledger. The same employee that collects cash also performs the duties of posting and reconciling the receipts and preparing the receipts for deposit. Furthermore, the employee that performs the bank statement reconciliation occasionally performs the cash collection and deposit preparation duties. Due to this limitation, access to the general ledger is not ideally restricted. The same employee that prepares payroll also has access to personnel files and makes payrate changes. Due to this limitation, separate of payroll and personnel matters is not ideally restricted.

Effect: Errors in financial reporting could occur and not be detected.

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

Identification of Repeat Finding: This is a repeat finding that has been modified from the immediate previous audit, 2018-001.

Recommendation: Access to the books and records of the Town should be separated from access to the assets of the Town as much as possible. Access to the personnel files should be separated from access to payroll processing as much as possible. Alternative controls should be used to compensate for any lack of segregation of duties. The Town Council should provide some of these controls.

Views of Responsible Officials and Planned Corrective Action: Management is aware of the weakness but, due to the cost benefit analysis, hiring additional personnel does not appear feasible.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2019

2. Findings Related to the Audit of the Basic Financial Statements (continued)

Material Weakness/Non-Compliance

Finding 2019-002

Criteria: Management should have a system in place to reduce the likelihood of non-compliance with all applicable laws, rules and regulations.

Condition: Local governments in North Carolina are prohibited from holding certain types of securities.

Effect: The Town is in violation of G.S. 159-30.

Cause: Securities were donated to the Town with specified terms that the investment not be sold. The terms did not comply with state statutes.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2018-002.

Recommendation: The Town should make an effort to contact the contributors of the securities and have the terms changed to comply with G.S. 159-30.

Views of Responsible Officials and Planned Corrective Action: The Town agrees with this finding but will abide by the terms of the agreement if the contributors cannot be contacted.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2019

2. Findings Related to the Audit of the Basic Financial Statements (continued)

Material Weakness

Finding 2019-003

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting. This includes identifying all necessary adjustments to the Town's general ledger to conform to accounting principles general accepted in the United States of America and generally accepted governmental accounting standards.

Condition: A significant audit adjustment is a proposed correction of the basic financial statements that, in our judgement, may not have been detected except through our auditing procedures. The existence of such material adjustments indicates that the Town's system of controls did not detect and prevent such errors. We have provided management with a report of these adjustments.

Effect: Errors could occur in financial reporting.

Cause: There are limited Town resources as it relates to the preparation of all necessary year-end adjustments for financial reporting purposes.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit, 2018-003.

Recommendation: Management should examine the adjustments required as a result of our audit and the Finance Officer should assure they are reconciled and reported prior to the audit.

Views of Responsible Officials and Planned Corrective Action: Management concurs with this finding and will adhere to the Corrective Action Plan in this audit report.



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TOWN OF RUTHERFORDTON, NORTH CAROLINA

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2019**

Material Weakness

Finding 2019-001

Name of Contact Person: Doug Barrick

Corrective Action: Management is aware of the weakness but, due to the cost benefit analysis, hiring additional personnel does not appear feasible. Management does its best with segregation of duties with the small staff on hand.

Proposed Completion Date: Immediately.

Material Weakness/Non-Compliance

Finding 2019-002

Name of Contact Person: Doug Barrick

Corrective Action: The Town agrees with this finding but will abide by the terms of the agreement if the contributors cannot be contacted.

Proposed Completion Date: Immediately.

Material Weakness

Finding 2019-003

Name of Contact Person: Doug Barrick

Corrective Action: Management is aware of the weakness and will make every effort to post all year end adjusting entries prior to the audit in the future.

Proposed Completion Date: Immediately.

Doug Barrick
Town Manager

TOWN OF RUTHERFORDTON, NORTH CAROLINA

SCHEDULE OF PRIOR YEAR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2019

Material Weakness

Finding 2018-001

Status: Modified and repeated in the current year as Finding 2019-001.

Material Weakness / Non-Compliance

Finding 2018-002

Status: Repeated in the current year as Finding 2019-002.

Material Weakness

Finding 2018-003

Status: Repeated in the current year as Finding 2019-003.

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