

**TOWN OF SCOTLAND NECK**  
**FINANCIAL STATEMENTS**  
**SCOTLAND NECK, NORTH CAROLINA**  
**FOR THE YEAR ENDED JUNE 30, 2019**

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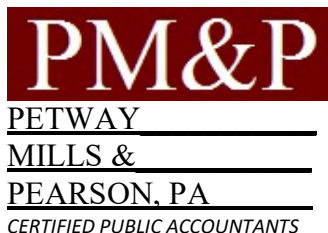
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## **FINANCIAL SECTION**

## **INDEPENDENT AUDITORS' REPORT**



## Independent Auditor's Report

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

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditors' Responsibility

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

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

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

### Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Scotland Neck, North Carolina as of June 30, 2019, and

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the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 10 through 18, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 48 and 49, respectively, and the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 50 and 51, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Supplementary and Other Information***

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Scotland Neck, North Carolina. The combining individual fund statements, budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2019 on our consideration of the Town of Scotland Neck's internal



control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Scotland Neck's internal control over financial reporting and compliance.

*Petway Mills & Pearson, PA*

PETWAY MILLS & PEARSON, PA  
Certified Public Accountants  
Zebulon, North Carolina

December 18, 2019

## **Town of Scotland Neck Management's Discussion and Analysis**

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

### **Financial Highlights**

- The assets of the Town of Scotland Neck exceeded its liabilities at the close of the fiscal year by \$12,446,864(*net position*).
- The government's total net position decreased by \$689,079 primarily due to operating losses in the business-type activities and increased costs in the general fund.
- As of the close of the current fiscal year, the Town of Scotland Neck's governmental funds reported combined ending fund balances of \$1,056,474 with a net change of \$(501,096) in fund balance. Approximately 68 percent of this total amount or \$627,435 is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, total fund balance for the General Fund was \$936,673 or 39 percent of total general fund expenditures for the fiscal year.
- The Town of Scotland Neck's total debt increased by \$137,117 during the current fiscal year. The key factor in this increase was debt related to the Town's pension liability.

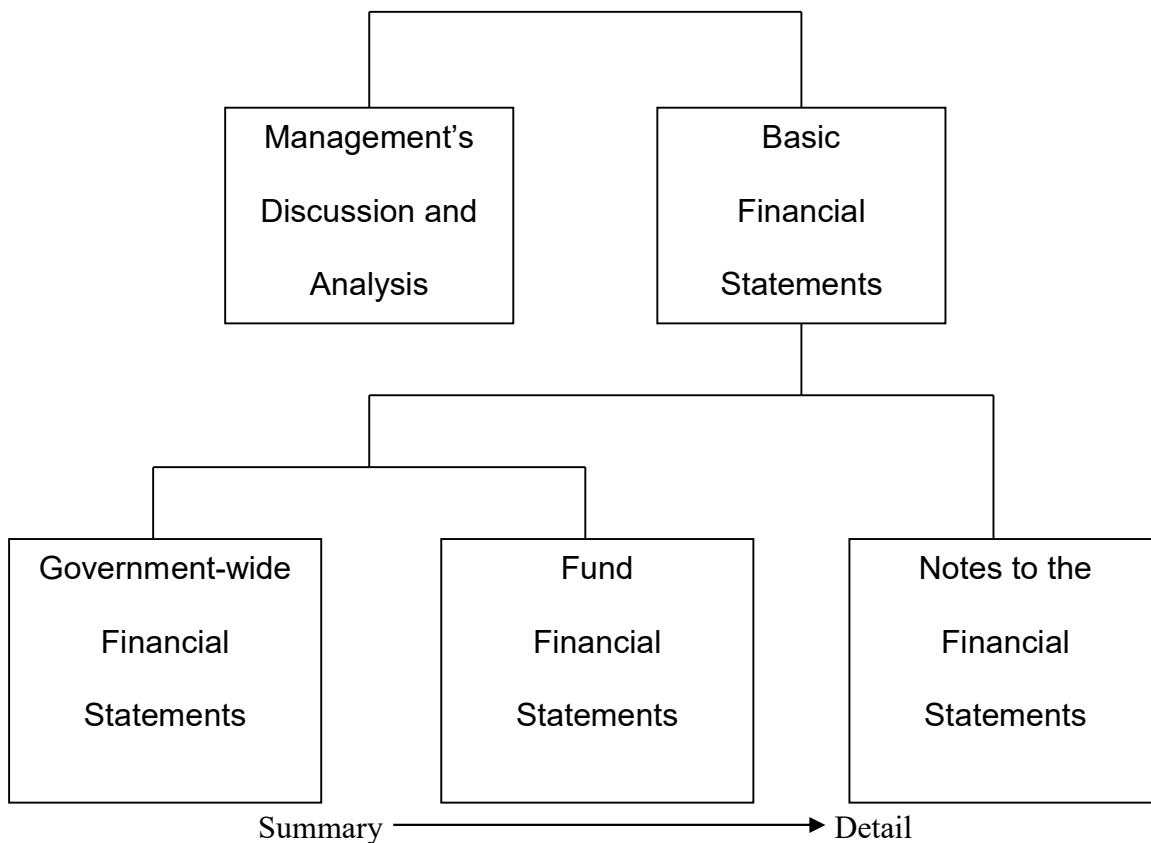
### **Overview of the Financial Statements**

This discussion and analysis are intended to serve as an introduction to Town of Scotland Neck'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 Scotland Neck.

**Town of Scotland Neck  
Management's Discussion and Analysis**

**Required Components of Annual Financial Report**

**Figure 1**



**Basic Financial Statements**

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

The next statements (Exhibits 3 through 9) 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; 3) the proprietary fund statements; and 4) the fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental**

## **Town of Scotland Neck Management's Discussion and Analysis**

**information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

### **Government-Wide Financial Statements**

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

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

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

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

### **Fund Financial Statements**

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

## **Town of Scotland Neck Management's Discussion and Analysis**

financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Scotland Neck 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 City, the management of the City, 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.

**Proprietary Funds** – Town of Scotland Neck has two enterprise funds. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Scotland Neck uses enterprise funds to account for its water and sewer activity and for its electric operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Town of Scotland Neck has no fiduciary funds.

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 28 of this report.

### **Government-Wide Financial Analysis**

## Town of Scotland Neck Management's Discussion and Analysis

### Town of Scotland Neck's Net Position

**Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 1,234,734	\$ 1,768,158	\$ 1,831,758	\$ 1,416,313	\$ 3,066,492	\$ 3,184,471
Capital and non current assets	2,649,463	2,459,354	7,952,380	7,268,709	10,601,843	9,728,063
Total assets	3,884,197	4,227,512	9,784,138	8,685,022	13,668,335	12,912,534
Deferred pension outflows	146,979	113,485	112,077	75,006	259,056	188,491
Long-term liabilities outstanding	236,030	186,243	406,821	406,463	642,851	592,706
Other liabilities	58,376	113,750	701,325	558,979	759,701	672,729
Total liabilities	294,406	299,993	1,108,146	965,442	1,402,552	1,265,435
Pension Deferrals	24,005	15,017	53,970	62,788	77,975	77,805
Net position:						
Net investment in capital assets						
related debt	2,649,463	2,420,344	7,641,380	6,913,709	10,290,843	9,334,053
Restricted	429,039	363,534	-	-	429,039	363,534
Unrestricted	634,263	1,242,109	1,092,719	818,089	1,726,982	2,060,198
Total net position	\$ 3,712,765	\$ 4,025,987	\$ 8,734,099	\$ 7,731,798	\$ 12,446,864	\$ 11,757,785

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of The Town of Scotland Neck exceeded liabilities by \$12,446,864 as of June 30, 2019. The Town's net position increased by \$689,079 for the fiscal year ended June 30, 2019. However, 80% of the net position reflect the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Scotland Neck uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Scotland Neck's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Scotland Neck's net position, \$429,039 represent resources that are subject to external restrictions on how they may be used. The remaining balance of \$634,263 is unrestricted.

**Town of Scotland Neck  
Management's Discussion and Analysis**

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.55%. The Town has experienced losses in population over the last several years, consistent with other towns in eastern North Carolina. This migration to more urban areas continues to affect local property values in a significant way.
- Effects of continued depressed economic activity in Eastern North Carolina rural areas.
- The periodic negative effects of weather on the local agricultural economy.
- Depreciation of fixed assets in the water/sewer fund is at a higher amount due to ongoing expenditures in the capital projects fund for sewer improvements.
- Normal periodic retirement of debt issued in prior years.

## Town of Scotland Neck Management's Discussion and Analysis

### Town of Scotland Neck Statement of Activities Figure 3

	Governmental Activities		Business Type Activities		Total	
	2019	2018	2019	2018	2019	2018
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 221,007	\$ 259,782	\$ 4,940,938	\$ 4,725,502	\$ 5,161,945	\$ 4,985,284
Operating grants and contributions	417,688	654,570	-	-	417,688	654,570
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	756,435	614,062	-	-	756,435	614,062
Other taxes	466,536	55,112	-	-	466,536	55,112
Grants and contributions not restricted to specific programs	-	-	1,098,204	1,524,917	1,098,204	1,524,917
Other	38,981	434,468	-	-	38,981	434,468
Total revenues	1,900,647	2,017,994	6,039,142	6,250,419	7,939,789	8,268,413
<b>Expenses:</b>						
General government	405,505	525,492	-	-	405,505	525,492
Public safety	879,808	796,821	-	-	879,808	796,821
Transportation	455,641	599,130	-	-	455,641	599,130
Environmental protection	12,239	18,614	-	-	12,239	18,614
Economic and physical development	129,719	116,833	-	-	129,719	116,833
Cultural and recreation	356,979	252,449	-	-	356,979	252,449
Interest on long-term debt	1,478	2,703	-	-	1,478	2,703
Water and sewer	-	-	1,746,730	1,727,372	1,746,730	1,727,372
Electric	-	-	3,262,611	3,466,390	3,262,611	3,466,390
Total expenses	2,241,369	2,312,042	5,009,341	5,193,762	7,250,710	7,505,804
Increase/(decrease) in net position	(340,722)	(294,048)	1,029,801	1,056,657	689,079	762,609
Transfers/pmt in lieu	27,500	27,500	(27,500)	(27,500)	-	-
Restatement	-	-	-	191,563	-	191,563
Forgiveness of Interfund loans	-	830,000	-	(830,000)	-	-
Gain on sale of asset	-	-	-	-	-	-
Increase (decrease) in net position	(313,222)	563,452	1,002,301	390,720	689,079	954,172
Net position, July 1	4,025,987	3,462,535	7,731,798	7,341,078	11,757,785	10,803,613
Net position, June 30	\$ 3,712,765	\$ 4,025,987	\$ 8,734,099	\$ 7,731,798	\$ 12,446,864	\$ 11,757,785

**Governmental activities.** Governmental activities decreased the Town's net position by \$313,222.

Key elements of this increase are the increase in general government costs from 2019 to 2018 contributed to the overall decrease in net position; however, the Town Council's forgiveness of inter-fund loans increased in net position.



## **Town of Scotland Neck Management's Discussion and Analysis**

**Business-type activities:** Business-type activities increased the Town of Scotland Neck's net position by \$1,002,301. Key elements of this decrease is depreciation of capital assets in the water and sewer fund due to capital purchases in recent years.

### **Financial Analysis of the Town's Funds**

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

**Governmental Funds.** The focus of the Town of Scotland Neck's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Scotland Neck's financing requirements. Specifically, unassigned fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town of Scotland Neck. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$627,435 while total fund balance was \$1,056,474. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 26.00 percent of total General Fund expenditures, while total fund balance represents 39.00 percent of that same amount. At June 30, 2019, the governmental funds of Town of Scotland Neck reported a combined fund balance of 1,056,474 with a net decrease in fund balance of \$501,096.

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

Revenues were more than budgeted amounts due to unanticipated amounts received from certain services, grant funds, and intergovernmental revenues.

**Proprietary Funds.** The Town of Scotland Neck's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$106,606 and those for the

## **Town of Scotland Neck Management's Discussion and Analysis**

Electric Fund amounted to \$986,113. The total change in net position for both funds was \$293,420 and \$708,881 respectively. This change in net position is primarily the result of transfers between the two proprietary funds and depreciation on capital assets.

### **Capital Asset and Debt Administration**

**Capital assets.** The Town of Scotland Neck's investment in capital assets for its governmental and business-type activities as of June 30, 2019 totals \$10,601,843 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles. Major capital asset transactions during the year include the following:

- There were significant improvements to the fixed assets of proprietary funds due to a capital project.
- There were no significant improvements to the fixed assets of the governmental funds.

Additional information on the Town's capital assets can be found beginning on page 35 of the notes to the Basic Financial Statements.

**Long-term Debt.** As of June 30, 2019, the Town of Scotland Neck had total bonded debt outstanding of \$312,000. These bonds were used to fund major improvements to the Town's water and sewer fund.

### **Town of Scotland Neck's Outstanding Debt**

The Town of Scotland Neck's total debt decreased by \$86,880 during the past fiscal year as the result of normal retirement of the various categories of debt coupled with an increase in accounts payable.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Scotland Neck is \$233,867. Additional information regarding the Town of Scotland Neck's long-term debt can be found on page 44 of the notes to the financial statements

### **Economic Factors affecting the Town of Scotland Neck**

The Town is located in Halifax County, NC which is a rural agrarian based economy. Unemployment rates are among the highest in the State. This and the lagging economic recovery are having a negative effect on the Town's economic condition as it moves forward in its normal budgetary process. The potential negative effects of weather patterns also have a severe impact on the local agrarian economy. Management continues to assess cost control measures as they begin the budgetary process.

### **Requests for Information**

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Scotland Neck, PO Box 537, Scotland Neck NC 27874.

**Town of Scotland Neck**  
**Statement of Net Position**  
**June 30, 2019**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 875,005	\$ 866,880	\$ 1,741,885
Restricted cash and cash equivalents	135,382	101,393	236,775
Taxes receivables (net)	119,884	-	119,884
Accounts receivable (net) - trade	52,743	681,303	734,046
Prepaid expenses	-	37,750	37,750
Due from other governments	41,431	-	41,431
Internal balances	10,289	(10,289)	-
Inventories	-	154,721	154,721
Total current assets	1,234,734	1,831,758	3,066,492
Noncurrent assets:			
Capital assets:			
Land, non-depreciable improvements, and construction in progress	309,799	22,043	331,842
Other capital assets, net of depreciation	2,339,664	7,930,337	10,270,001
Total capital assets	2,649,463	7,952,380	10,601,843
Total noncurrent assets	2,649,463	7,952,380	10,601,843
<b>Total assets</b>	<b>3,884,197</b>	<b>9,784,138</b>	<b>13,668,335</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Contributions to pension plan in current fiscal year	45,081	27,512	72,593
Pension deferrals	101,898	84,565	186,463
<b>Total deferred outflows of resources</b>	<b>146,979</b>	<b>112,077</b>	<b>259,056</b>
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accruals - trade	58,376	556,932	615,308
Customer deposits	-	101,393	101,393
Current portion of long-term liabilities	-	43,000	43,000
Total current liabilities	58,376	701,325	759,701
Long-term liabilities:			
Net pension liability	156,952	134,134	291,086
Total LEO pension liability	63,799	-	63,799
Compensated absences	15,279	4,687	19,966
Due in more than one year	-	268,000	268,000
Total long-term liabilities	236,030	406,821	642,851
<b>Total liabilities</b>	<b>294,406</b>	<b>1,108,146</b>	<b>1,402,552</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	24,005	3,970	27,975
Unavailable revenue	-	50,000	50,000
<b>Total deferred inflows of resources</b>	<b>24,005</b>	<b>53,970</b>	<b>77,975</b>
<b>NET POSITION</b>			
Net invested in capital assets	2,649,463	7,641,380	10,290,843
Restricted for:			
Stabilization by State Statute	173,856	-	173,856
Streets	111,723	-	111,723
Economic Development	119,801	-	119,801
Public Safety	23,659	-	23,659
Unrestricted	634,263	1,092,719	1,726,982
<b>Total net position</b>	<b>\$ 3,712,765</b>	<b>\$ 8,734,099</b>	<b>\$ 12,446,864</b>

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

Town of Scotland Neck  
Statement of Activities  
For the Year Ended June 30, 2019

For the Year Ended June 30, 2019							
Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary government:</b>							
Governmental Activities:							
General government	\$ 405,505	\$ -	\$ 57,480	\$ -	\$ (348,025)	\$ -	\$ (348,025)
Public safety	879,808	3,793	108,529	-	(767,486)	-	(767,486)
Transportation	455,641	-	117,580	-	(338,061)	-	(338,061)
Economic and physical development	12,239	-	-	-	(12,239)	-	(12,239)
Environmental protection	129,719	214,484	-	-	84,765	-	84,765
Culture and recreation	356,979	2,730	134,099	-	(220,150)	-	(220,150)
Interest on long-term debt	1,478	-	-	-	(1,478)	-	(1,478)
<b>Total governmental activities</b>	<b>2,241,369</b>	<b>221,007</b>	<b>417,688</b>	<b>-</b>	<b>(1,602,674)</b>	<b>-</b>	<b>(1,602,674)</b>
<b>Business-type activities:</b>							
Electric	3,262,611	3,563,531	-	-	-	300,920	300,920
Water and sewer	1,746,730	1,377,407	-	1,098,204	-	728,881	728,881
<b>Total business-type activities</b>	<b>5,009,341</b>	<b>4,940,938</b>	<b>-</b>	<b>1,098,204</b>	<b>-</b>	<b>1,029,801</b>	<b>1,029,801</b>
<b>Total primary government</b>	<b>\$ 7,250,710</b>	<b>\$ 5,161,945</b>	<b>\$ 417,688</b>	<b>\$ 1,098,204</b>	<b>(1,602,674)</b>	<b>1,029,801</b>	<b>(572,873)</b>
<b>General revenues:</b>							
Taxes:							
Property taxes, levied for general purpose					756,435	-	756,435
Other taxes					466,536	-	466,536
Unrestricted investment earnings					3,951	-	3,951
Miscellaneous					35,030	-	35,030
Forgiveness of interfund debt - special item					-	-	-
Transfers					27,500	(27,500)	-
Total general revenues and transfers					1,289,452	(27,500)	1,261,952
Change in net position					(313,222)	1,002,301	689,079
<b>Net position, beginning,</b>					<b>4,025,987</b>	<b>7,731,798</b>	<b>11,757,785</b>
<b>Net position, ending</b>					<b>\$ 3,712,765</b>	<b>\$ 8,734,099</b>	<b>\$ 12,446,864</b>

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

**Town of Scotland Neck  
Balance Sheets  
Governmental Funds  
June 30, 2019**

	<b>Major Fund General Fund</b>	<b>Non-major Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 766,611	\$ 108,394	\$ 875,005
Restricted cash and cash equivalents	135,382	-	135,382
Taxes receivable (net)	119,884	-	119,884
Accounts receivable (net) - trade	52,743	-	52,743
Due from other funds	-	11,407	11,407
Due from other governments	41,431	-	41,431
Total assets	<u>\$ 1,116,051</u>	<u>\$ 119,801</u>	<u>\$ 1,235,852</u>
<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities - trade	\$ 58,376	\$ -	\$ 58,376
Due to other funds	1,118	-	1,118
Total liabilities	<u>59,494</u>	<u>-</u>	<u>59,494</u>
Deferred Inflows of Resources:			
Property taxes receivable	119,884	-	119,884
Fund balances:			
Restricted:			
Stabilization by State Statute	173,856	-	173,856
Streets	111,723	-	111,723
Economic Development	-	119,801	119,801
Public Safety	23,659	-	23,659
Unassigned	627,435	-	627,435
Total fund balances	<u>936,673</u>	<u>119,801</u>	<u>1,056,474</u>
Total liabilities and fund balances	<u>\$ 1,116,051</u>	<u>\$ 119,801</u>	
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.			2,649,463
Net pension liability			(220,751)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position			45,081
Pension related deferrals			77,893
Earned revenues considered deferred inflows of resources in fund statements			119,884
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.			(15,279)
Net position of governmental activities			<u>\$ 3,712,765</u>

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

**Town of Scotland Neck**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2019**

	<b>Major Fund General Fund</b>	<b>Total Non-Major Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Ad valorem taxes	\$ 744,893	\$ -	\$ 744,893
Unrestricted intergovernmental	466,536	-	466,536
Restricted intergovernmental	294,532	-	294,532
Permits, fees, sales, services, and other	371,667	7,526	379,193
Investment earnings	3,659	292	3,951
Miscellaneous	-	-	-
Total revenues	1,881,287	7,818	1,889,105
<b>EXPENDITURES</b>			
Current:			
General government	268,054	-	268,054
Public safety	842,594	-	842,594
Transportation	434,140	-	434,140
Environmental protection	129,719	-	129,719
Economic and Community Development	-	12,239	12,239
Culture and recreation	337,132	-	337,132
Debt service:			
Principal	39,010	-	39,010
Interest and other charges	1,478	-	1,478
Capital outlay	355,500	-	355,500
Total expenditures	2,407,627	12,239	2,419,866
Excess (deficiency) of revenues over (under) expenditures	(526,340)	(4,421)	(530,761)
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfer from other funds	27,500	-	27,500
Forgiveness of interfund debt	-	-	-
Transfers to OCH fund	(2,256)	-	(2,256)
Total other financing sources (uses)	25,244	-	25,244
Net change in fund balance	(501,096)	(4,421)	(505,517)
Fund balances, beginning	1,437,769	124,222	1,561,991
Fund balances, ending	\$ 936,673	\$ 119,801	\$ 1,056,474

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

**Town of Scotland Neck  
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**

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

Net changes in fund balances - total governmental funds	\$ (505,517)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	190,109
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	45,081
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:	
Change in deferred revenue for tax revenues	11,542
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	39,010
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Pension expense	(95,054)
Compensated absences	1,607
Total changes in net position of governmental activities	<u>\$ (313,222)</u>

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

**Town of Scotland Neck  
General Fund  
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual  
For the Year Ended June 30, 2019**

<b>General Fund</b>				
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 646,800	\$ 646,800	\$ 744,893	\$ 98,093
Unrestricted intergovernmental	208,000	208,000	466,536	258,536
Restricted intergovernmental	155,857	177,098	294,532	117,434
Permits, fees, sales, services and other	602,000	602,000	371,667	(230,333)
Investment earnings	-	-	3,659	3,659
Miscellaneous	27,500	5,000	-	(5,000)
Total revenues	1,640,157	1,638,898	1,881,287	242,389
Expenditures:				
Current:				
General government	103,961	71,313	268,054	(196,741)
Public safety	761,843	715,709	842,594	(126,885)
Transportation	420,038	536,688	434,140	102,548
Environmental protection	77,333	50,222	129,719	(79,497)
Culture and recreation	204,604	220,088	337,132	(117,044)
Debt service:				
Principal retirement	40,488	40,488	39,010	1,478
Interest and other charges	1,478	1,478	1,478	-
Capital Outlay	30,412	30,412	355,500	(325,088)
Total expenditures	1,640,157	1,666,398	2,407,627	(741,229)
Revenues over (under) expenditures	-	(27,500)	(526,340)	(498,840)
Other financing sources (uses):				
Appropriated fund balance	-	-	-	-
Transfers	-	27,500	25,244	(2,256)
Forgiveness of interfund debt	-	-	-	-
Total other financing sources (uses)	-	27,500	25,244	(2,256)
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	(501,096)	\$ (501,096)
Fund balances, beginning			1,437,769	
Fund balances, ending			\$ 936,673	

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



**Town of Scotland Neck  
Statement of Net Position  
Proprietary Funds  
June 30, 2019**

	<b>Major Enterprise Funds</b>		
	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 866,880	\$ -	\$ 866,880
Restricted cash and cash equivalents	78,046	23,347	101,393
Accounts receivable (net) - trade	476,668	204,635	681,303
Prepaid expenses	-	37,750	37,750
Due from other funds	(16,025)	5,736	(10,289)
Inventories	139,268	15,453	154,721
Total current assets	1,544,837	286,921	1,831,758
Noncurrent assets:			
Capital assets:			
Land and other non-depreciable assets	11,543	10,500	22,043
Other capital assets, net of depreciation	247,759	7,682,578	7,930,337
Capital assets (net)	259,302	7,693,078	7,952,380
Total noncurrent assets	259,302	7,693,078	7,952,380
Total assets	1,804,139	7,979,999	9,784,138
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Contributions to pension plan	22,243	5,269	27,512
Pension deferrals	68,978	15,587	84,565
Total deferred outflows of resources	91,221	20,856	112,077
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities - trade	456,088	100,844	556,932
Customer deposits	78,046	23,347	101,393
General obligation bonds payable - current	-	43,000	43,000
Total current liabilities	534,134	167,191	701,325
Noncurrent liabilities:			
General obligation bonds payable - noncurrent (net)	-	268,000	268,000
Net pension liability	107,936	26,198	134,134
Compensated absences	4,687	-	4,687
Total noncurrent liabilities	112,623	294,198	406,821
Total liabilities	646,757	461,389	1,108,146
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	3,188	782	3,970
Unavailable revenue	-	50,000	50,000
Total deferred inflows of resources	3,188	50,782	53,970
<b>NET POSITION</b>			
Net investment in capital assets	259,302	7,382,078	7,641,380
Unrestricted	986,113	106,606	1,092,719
Total net position	\$ 1,245,415	\$ 7,488,684	\$ 8,734,099

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

**Town of Scotland Neck**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2019**

	Major Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
<b>OPERATING REVENUES</b>			
Electricity sales	\$ 3,539,748	\$ -	\$ 3,539,748
Water and sewer charges	-	1,359,004	1,359,004
Other operating revenues	23,783	18,403	42,186
<b>Total operating revenues</b>	<u>3,563,531</u>	<u>1,377,407</u>	<u>4,940,938</u>
<b>OPERATING EXPENSES</b>			
Electric operations	3,088,918	-	3,088,918
Water treatment distribution	-	1,288,768	1,288,768
Depreciation	29,625	453,652	483,277
<b>Total operating expenses</b>	<u>3,118,543</u>	<u>1,742,420</u>	<u>4,860,963</u>
<b>Operating income (loss)</b>	<u>444,988</u>	<u>(365,013)</u>	<u>79,975</u>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	-	-	-
Interest and other charges	-	(14,710)	(14,710)
Miscellaneous	(144,068)	10,400	(133,668)
<b>Total nonoperating revenue (expenses)</b>	<u>(144,068)</u>	<u>(4,310)</u>	<u>(148,378)</u>
<b>Income (loss) before contributions and transfers</b>	<u>300,920</u>	<u>(369,323)</u>	<u>(68,403)</u>
Grants	-	1,098,204	1,098,204
Forgiveness of Interfund debt	-	-	-
Transfers to other funds	(7,500)	(20,000)	(27,500)
<b>Total income (loss) after contributions and transfers</b>	<u>293,420</u>	<u>708,881</u>	<u>1,002,301</u>
<b>Change in net position</b>	<u>293,420</u>	<u>708,881</u>	<u>1,002,301</u>
<b>Total net position, beginning</b>	<u>951,995</u>	<u>6,779,803</u>	<u>7,731,798</u>
<b>Total net position, ending</b>	<u>\$ 1,245,415</u>	<u>\$ 7,488,684</u>	<u>\$ 8,734,099</u>

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

**Town of Scotland Neck**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2019**

	<b>Major Enterprise Funds</b>		
	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Totals</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 3,330,663	\$ 1,295,994	\$ 4,626,657
Cash paid for goods and services	(2,364,134)	(1,250,665)	(3,614,799)
Cash paid to or on behalf of employees for services	(569,374)	(79,442)	(648,816)
Nonoperating revenues	(144,068)	(14,710)	(158,778)
Net cash provided (used) by operating activities	253,087	(48,823)	204,264
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Interfund activity	-	-	-
Transfer (to) / from other funds	(7,500)	(20,000)	(27,500)
Total cash flows provided (used) by noncapital financing activities	(7,500)	(20,000)	(27,500)
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	-	(1,098,204)	(1,098,204)
Principal and interest paid on bonds and notes	-	57,710	57,710
Grants	-	1,098,204	1,098,204
Net cash provided (used) by capital and related financing activities	-	57,710	57,710
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends	-	-	-
Net cash provided (used) by investing activities	-	-	-
Net increase in cash and cash equivalents	245,587	(11,113)	234,474
Balances, beginning	699,339	34,460	733,799
Balances, ending	\$ 944,926	\$ 23,347	\$ 968,273
<b>Reconciliation of operating income to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ 444,988	\$ (365,013)	\$ 79,975
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	29,625	453,652	483,277
Pension expense	(29,456)	(7,832)	(37,288)
Nonoperating revenues	(144,068)	(14,710)	(158,778)
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(173,730)	(107,969)	(281,699)
(Increase) decrease in inventory	-	-	-
(Increase) decrease in prepaid expenses	-	-	-
(Increase) decrease in deferred outflows of resources - pensions	(28,788)	(7,170)	(35,958)
Increase in net pension liability	37,401	(10,562)	26,839
Increase (decrease) in deferred inflows of resources - pensions	(894)	(288)	(1,182)
Increase (decrease) in accounts payable and accrued liabilities	158,673	32,182	190,855
Increase (decrease) in customer deposits	(37,401)	(11,113)	(48,514)
Increase (decrease) in unearned revenue	-	(10,000)	(10,000)
Increase (decrease) in compensated absences	(3,263)	-	(3,263)
Total adjustments	(191,901)	316,190	124,289
Net cash provided (used) by operating activities	\$ 253,087	\$ (48,823)	\$ 204,264

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

**Town of Scotland Neck, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

**I. Summary of Significant Accounting Policies**

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

**A. Reporting entity**

The Town of Scotland Neck is a municipal corporation which is governed by an elected mayor and a five-member Board of Commissioners.

**B. Basis of Presentation-Fund Accounting**

*Government-wide Statements:*

The statement of net position and the statement of activities display information about the government. These statements include the financial activities of the overall government. These statements distinguish between the governmental and business-type activities of the Town. Government 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 direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activity. Direct expenses are those that are specifically associated with a program or function and, therefore are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods and services offered by the program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund financial statements:

The fund financial statements provide information about the Town's funds. Separate statements for each fund category – governmental and proprietary – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column.

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

The Town reports the following major governmental funds:

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

The Town reports the following non-major governmental funds:

Special Revenue Funds – Special Revenue Funds account for specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditures for specified purposes. The Town maintains two Special Revenue Funds: The OCH Grant Reimbursement Fund and the Marketing Fund.

**Town of Scotland Neck, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

The Town reports the following major enterprise funds:

Electric Fund – This fund is used to account for the Town's electric fund operations.

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

The Town reports no non-major enterprise funds.

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

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

*Government-wide and Proprietary Fund Financial Statements:*

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

*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 judgment, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

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

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

**Town of Scotland Neck, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

**D. Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Capital Projects Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2,500. All amendments must be approved by the governing board. During the year, there were amendments to the original budget. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

**1. Deposits and Investments**

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT- Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value.

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost.

**2. Cash and Cash Equivalents**

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

**3. Restricted Assets**

The unexpended grant funds of the Capital Projects funds and various grant funds are classified as restricted assets for the Enterprise and General Fund because their use is completely restricted to the purpose for which the funds were originally issued. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit is collected. Powell Bill funds are also classified as restricted cash because it 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. In addition public safety funds are also restricted. The funds are only to be expended for public safety related expenditures.

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**4. Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2017. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

**5. Allowances for Doubtful Accounts**

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

**6. Inventory and Prepaid Items**

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The inventories of the Town's enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when held for resale rather than when 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. These payments are expensed as items are used.

**7. Capital Assets**

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets consisting of road networks prior to July 1, 2003 have not been recorded as permitted by GASB Statement 34. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Improvements	25
Vehicles	6
Computer Equipment	3
Furniture and office equipment	10

**8. Deferred Outflows/Inflows of Resources**

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

**Town of Scotland Neck, North Carolina**  
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pension plan in the 2019 fiscal year and pension deferrals. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has three items that meet the criterion for this category – property taxes receivable, unavailable revenues, and deferrals of pension expense that result from the implementation of GASB Statement 68.

**9. Long-Term Obligations**

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

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

**10. Net Position/Fund Balances**

**Net Position**

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

**Fund Balances**

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

The governmental fund types classify fund balances as follows:

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

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

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

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 Public Safety – portion of fund balance restricted by revenue source for public safety.

Restricted for Economic Development – portion of fund balance restricted by grantors to economic development.

Committed Fund Balance – 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).



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The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

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

The Town of Scotland Neck has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-Town funds, Town funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

**F. Revenues, Expenditures, and Expenses**

**1. Other Resources**

The General Fund provides the basis of local resources for other governmental funds. These transactions are recorded as “Operating transfers-out” in the General Fund and “Operating transfers-in” in the receiving fund.

**2. Compensated Absences**

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

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

**3. Pensions**

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees’ Retirement System (LGERS) and the Law Enforcement Officer’s Separation Allowance (LEO) and additions to/deductions from LGERS’ and LEOs’ fiduciary net position have been determined on the same basis as they are reported by LGERS and LEO. For this purpose, plan member 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 and LEO. Investments are reported as fair value.

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**II. Stewardship, Compliance, and Accountability**

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

Finding 2019-002 addresses late filings of federal data collection forms.

Noncompliance with North Carolina General Statutes

B. Excess of Expenditures over Appropriations

Finding 2019-001 addresses expenditures in excess of approved budgets.

**III. Detail Notes on All Funds**

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$1,977,860 and a bank balance of \$2,022,344. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder of \$1,522,344 was covered by collateral held under the pooling method. At June 30, 2019, the Town's petty cash fund totaled \$800.

2. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position is net of the allowance for doubtful accounts. As of June 30, 2019, the General Fund's allowance for doubtful accounts was \$7,500, the Electric Fund's allowance for doubtful accounts was \$33,000, and the Water Sewer Fund's allowance for doubtful accounts was \$18,500.

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**3. Capital Assets**

**Primary Government**

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

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Capital assets not being depreciated				
Land and construction in progress	\$ 309,799	\$ -	\$ -	\$ 309,799
Capital assets being depreciated				
Buildings	3,508,308	-	-	3,508,308
Equipment	492,356	-	-	492,356
Infrastructure	34,000	-	-	34,000
Vehicles	1,968,557	355,500	-	2,324,057
Total capital assets being depreciated	6,003,221	355,500	-	6,358,721
Less accumulated depreciation for				
Buildings	1,640,918	88,698	-	1,729,616
Equipment	446,607	5,764	-	452,371
Infrastructure	9,520	680	-	10,200
Vehicles	1,756,622	70,248	-	1,826,870
Total accumulated depreciation	3,853,667	\$ 165,390	\$ -	4,019,057
Total capital assets, depreciated, net	2,149,554			2,339,664
Governmental activity capital assets, net	<u>\$ 2,459,353</u>			<u>\$ 2,649,463</u>

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

General Government	\$ 72,771
Public Safety	51,271
Transportation	21,501
Culture and Recreation	19,847
	<u>\$ 165,390</u>

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<b>Business-type activity:</b>	Beginning Balance	Increases	Decreases	Ending Balance
<b>Electric Fund</b>				
Capital assets not being depreciated				
Land and construction in progress	\$ 11,543	\$ -	\$ -	\$ 11,543
Capital assets being depreciated				
Plant and distribution systems	606,593	51,487	-	658,080
Maintenance equipment	694,736	17,250	-	711,986
Vehicles	487,173	-	-	487,173
Total capital assets being depreciated	1,788,502	68,737	-	1,857,239
Less accumulated depreciation for				
Plant and distribution systems	482,740	2,507	-	485,247
Maintenance equipment	656,262	10,414	-	666,676
Vehicles	440,853	16,704	-	457,557
Total accumulated depreciation	1,579,855	\$ 29,625	\$ -	1,609,480
Total capital assets, depreciated, net	208,647			247,759
Electric Fund capital assets, net	<u>\$ 220,190</u>			<u>\$ 259,302</u>
<b>Water and Sewer Fund</b>				
Capital assets not being depreciated				
Land and construction in progress	\$ 1,763,476	\$1,098,204	\$2,851,180	\$ 10,500
Capital assets being depreciated				
Plant and distribution systems	13,621,016	2,851,180	-	16,472,196
Maintenance equipment	413,468	-	-	413,468
Vehicles	52,155	-	-	52,155
Total capital assets being depreciated	14,086,639	2,851,180	-	16,937,819
Less accumulated depreciation for				
Plant and distribution systems	8,368,690	448,079	-	8,816,769
Maintenance equipment	380,753	5,573	-	386,326
Vehicles	52,155	-	-	52,155
Total accumulated depreciation	8,801,598	\$ 453,652	\$ -	9,255,250
Total capital assets, depreciated, net	5,285,041			7,682,569
Water and Sewer Fund capital assets, net	<u>\$ 7,048,517</u>			<u>\$ 7,693,069</u>
<b>Business-type activities capital assets, net</b>	<u>\$ 7,268,707</u>			<u>\$ 7,952,371</u>

**B. Liabilities**

**1. Pension Plan Obligations**

**a. Local Governmental Employees' Retirement System**

*Plan Description.* The Town of Scotland Neck 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

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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](http://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 monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

**Contributions.** Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2019, was 8.25% of compensation for law enforcement officers and 7.50% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$58,535, 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.

***Pensions 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 \$291,086 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 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, 2019, the Town's proportion was .01227%, which was a decrease of .00004% from its proportion measured as of June 30, 2018.

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For the year ended June 30, 2019, the Town recognized pension expense of \$87,027. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 44,908	\$ 1,507
Changes of assumptions	77,243	-
Net difference between projected and actual earnings on pension plan investments	39,958	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	19,412	7,181
Employer contributions subsequent to the measurement date	58,535	-
Total	<u>\$ 240,056</u>	<u>\$ 8,688</u>

\$58,535 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Future amortization:

**Year Ended June 30:**

2020	\$ 82,148
2021	55,481
2022	13,703
2023	21,500
	<u>\$ 172,832</u>

**Actuarial Assumptions.** The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

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

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and 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, 2019 are summarized in the following table:

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

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

*Discount rate.* The discount rate used to measure the total pension liability was 7.20%. 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 assumption, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

*Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate.* The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.00 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.0 percent) than the current rate:

	<b>1% Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
<b>Town's proportionate share of the net pension liability (asset)</b>	<b>\$ 699,215</b>	<b>\$ 291,086</b>	<b>\$ (49,952)</b>

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

**b. Law Enforcement Officers Special Separation Allowance**

**1. *Plan Description***

The Town of Scotland Neck administers a public employee retirement system (the Separation Allowance), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service.

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The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

The Separation Allowance covers all full time law enforcement officers of the Town. At December 31, 2017, the Separation Allowance's membership consisted of:

Inactive Members Currently Receiving Benefits	-
Active Plan Members	<u>9</u>
Total	<u><u>9</u></u>

A separate report was not issued for the plan.

## *2. Summary of Significant Accounting Policies*

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

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

## *3. Actuarial Assumptions*

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

Inflation	3.00 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factors
Discount rate	3.13 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2018.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

## *4. Contributions*

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$0 as benefits came due for the reporting period.

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

At June 30, 2019 the Town reported a total pension liability of \$63,799. 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



**Town of Scotland Neck, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$10,261.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 14,339
Changes of assumptions	4,942	4,948
Benefit payments and administrative expenses subsequent to the measurement date	14,057	-
	<u>\$ 18,999</u>	<u>\$ 19,287</u>

\$14,057 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows

**Year Ended June 30:**

2020	\$ 950
2021	950
2022	950
2023	950
2024	950
Thereafter	192
	<u>\$ 4,942</u>

*Sensitivity of the Town's total pension liability to changes in the discount rate.*

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

	1% Decrease 2.64%	Discount Rate 3.64%	1% Increase 4.64%
Total pension liability	\$ 74,763	\$ 63,799	\$ 54,269

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

	<b>2019</b>
Beginning balance	\$ 62,305
Service cost	10,797
Interest on the total pension liability	1,969
Changes of benefit terms	-
Difference between expected and actual experience in the measurement of the total pension liability	(6,198)
Changes of assumptions or other inputs	(5,074)
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	<u>\$ 63,799</u>

**Town of Scotland Neck, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

The plan currently uses mortality tables that vary by age and health status (i.e. disables 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, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

	LGERS	LEOSSA	Total
Pension Expense	\$ 87,027	\$ 10,261	\$ 97,288
Pension Liability	291,086	63,799	354,885
Proportionate share of the net pension liability	0.01227%	N/A	
<b>Deferred Outflows of Resources</b>			
Differences between expected and actual experience	44,908	-	44,908
Changes of assumptions	77,243	4,942	82,185
Net difference between projected and actual earnings on plan investments	39,958	-	39,958
Changes in proportion and differences between contributions and proportionate share of contributions	19,412	-	19,412
Benefit payments and administrative costs paid subsequent to the measurement date	28,535	14,057	42,592
<b>Deferred Inflows of Resources</b>			
Differences between expected and actual experience	1,507	14,339	15,846
Changes of assumptions	-	4,948	4,948
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	7,181	-	7,181

**c. Supplemental Retirement Income Plan for Law Enforcement Officers**

**Plan Description.** The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the City. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

**Funding Policy.** Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$25,775 which consisted of \$18,447 from the Town and \$7,329 from the law enforcement officers.

**2. Other Employment Benefit**

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System

**Town of Scotland Neck, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to \$10,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

**3. Deferred Outflows and Inflows of Resources**

The Town has two deferred outflows of resources comprised of the following elements:

Contributions to pension plan in current fiscal year	<u>\$ 72,593</u>
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Pension deferrals	<u>\$ 186,463</u>
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Deferred inflows of resources are comprised of the following elements:

General Fund	
Ad valorem taxes – unavailable	<u>\$ 119,884</u>

Water and Sewer Fund	
Unavailable Revenue	<u>\$ 50,000</u>

Pension deferrals	<u>\$ 27,975</u>
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**4. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town does not hold any flood insurance as of June 30, 2019. The Town does not own any buildings that are located in a flood plain and does not believe that flood insurance is a necessity.

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

**5. Claims, Judgments and Contingent Liabilities**

The Town had no claims, judgments or contingent liabilities as of June 30, 2019.

**6. Long-Term Obligations**

**a. Notes Payable**

**Town of Scotland Neck, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

Governmental Activities

In September 2008, the Town purchased a street sweeper and dump truck for \$290,903. The Town paid \$247 as a down payment and entered into a direct borrowing agreement for the remaining \$290,656 for ten years. The note payments are due annually and the note carries an interest rate of 3.79%. The note was repaid during the 2019 fiscal year.

Business Type Activities

The general obligation direct placement bonds were issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All bonds are collateralized by the faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2019 are comprised of the following individual issues:

NC Division of Water Quality-Sewer Improvements Note Payable	
Annual payments of \$20,000 plus interest at 2.66%	\$ 132,000
 \$663,000 1988 sewer bond due in annual variable installments through June 1, 2027 with interest at 5%	 <u>180,000</u>
 Totals at June 30, 2019	 <u><u>\$ 312,000</u></u>

Future maturities of installment debt are as follows:

Year Ending June 30	Total	Principal	Interest
2020	\$ 57,193	\$ 43,000	\$ 14,193
2021	55,488	43,000	12,488
2022	53,782	43,000	10,782
2023	52,077	43,000	9,077
2024	50,372	43,000	7,372
2025-2027	103,766	97,000	6,766
	<u>\$ 372,678</u>	<u>\$ 312,000</u>	<u>\$ 60,678</u>

At June 30, 2019, the Town of Scotland Neck had a legal debt margin of \$5,250,973.

b. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion
<b>Governmental Activities:</b>					
Compensated Absences	\$ 16,886	\$ -	\$ 1,607	\$ 15,279	\$ -
Net pension liability (LGERS)	107,052	49,900	-	156,952	-
Total pension liability (LEO)	62,305	1,494	-	63,799	-
Note Payable	39,010	-	39,010	-	-
Governmental Activities	<u>\$ 225,253</u>	<u>\$ 51,394</u>	<u>\$ 40,617</u>	<u>\$ 236,030</u>	<u>\$ -</u>
 <b>Business-Type Activities:</b>					
Compensated Absences	\$ 7,950	\$ -	\$ 3,263	\$ 4,687	\$ -
Net pension liability (LGERS)	86,513	47,621	-	134,134	-
Note Payable	355,000	-	43,000	312,000	43,000
Business-Type Activities	<u>\$ 449,463</u>	<u>\$ 47,621</u>	<u>\$ 46,263</u>	<u>\$ 450,821</u>	<u>\$ 43,000</u>

**Town of Scotland Neck, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

**7. Interfund Balances and Activity**

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

Due to OCH Fund from General Fund	\$ 11,407
Total	<u>\$ 11,407</u>

These funds were used to pay operating costs of the OCH fund.

**8. Unavailable Revenue**

Unavailable revenue refers to funds received by the Town of Hobgood for capacity in the Town of Scotland Neck's waste water treatment plant. The Town of Hobgood ran a sewer line to the Town of Scotland Neck's plant so that the Town of Scotland Neck could treat the sewer for Hobgood. Hobgood paid \$200,000 in 2004, and \$10,000 of revenue is recognized each year for 20 years.

**C. Fund Balance**

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

Total fund balance - General Fund	\$ 936,673
Less:	
Restricted:	
Stabilization by State Statute	173,856
Streets	111,723
Public Safety	23,659
Remaining Fund Balance	<u>\$ 627,435</u>

The Town of Scotland Neck has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local non-Town funds, Town funds. For purposes of fund balance classification expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance and lastly unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

**IV. Summary Disclosure of Significant Contingencies**

**Federal and State Assisted Programs**

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

**V. Estimates**

The management of the Town analyzed its General Government Administration costs for the year and developed several formulas for allocating these costs to the Enterprise funds. The allocations are intended to have all funds participate in the governing body costs based on their usage of administration services.

**Town of Scotland Neck, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

**VI. Jointly Governed Organizations**

The Town is a member of the North Carolina Eastern Municipal Power Agency (the Agency). The Agency was formed to enable municipalities that own electric distribution systems to finance, construct, own, operate, and maintain generation and transmission facilities through the Agency. The Town receives power from the Agency, and is contractually allocated a .576% interest in the Agency, with the balance being shared by thirty-one other local governments. Each participating government appoints one commissioner to the Agency's governing board. The Town is obligated to purchase all of its power supply requirements from the Agency. Except for the power sales purchase requirements, no local government participant has any obligation, entitlement, or residual interest. The Town's purchases of power for the fiscal year ended June 30, 2019 were \$2,522,807.

The Town, in conjunction with five counties and thirty other municipalities established the Region L Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board.

**VII. Joint Ventures**

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Fireman's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The Town obtains an ongoing financial benefit from the Fund for the on-behalf of payments for salary and fringe benefits made to members of the Town's fire department by the board of trustees. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at Post Office Box 188, Farmville, North Carolina 27828.

**VIII. Subsequent Events and Special Items**

The Town evaluated subsequent events from the date of the balance sheet through the date the report is available to be issued, which is the date of the independent auditors' report. Subsequent events after that date have not been evaluated. No subsequent events occurred during this period that require disclosure.

**IX. Transfers**

During the year, the Town transferred \$27,500 from the Electric and Water Funds to the General Fund. All transfers were made to provide financing for operating expenses.

**X. Expense Reimbursements**

Allocated costs are used to reduce the related in expenses in the Electric Fund and the Water and Sewer fund. Generally, salaries, the related fringes and other operating costs are reimbursed by reducing the related expense accounts.

**Town of Scotland Neck, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2019**

**XI. Powell Bill Funds and Restricted Funds for Streets**

Powell Bill funds and other funds were used for streets as follows:

	Powell Bill	Other Funds	Total
Net Position 7/1/2018	\$ 125,740	\$ -	\$ 125,740
Revenues	61,662	-	61,662
Interest income	-	-	-
Expenses	(75,679)	-	(75,679)
Reclassifications	-	-	-
Net position 6/30/2019	\$ 111,723	\$ -	\$ 111,723

**Town of Scotland Neck  
Town of Scotland Neck's Proportionate Share of Net Pension Liability (Asset)  
Required Supplementary Information  
Last Six Fiscal Years \***

**Local Government Employees' Retirement System**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Scotland Neck's proportion of the net pension liability (asset) (%)	0.01227%	0.01267%	0.00841%	0.00848%	0.00938%	0.00940%
Scotland Neck's proportion of the net pension liability (asset) (\$)	\$ 291,086	\$ 193,565	\$ 178,490	\$ 38,059	\$ (55,317)	\$ 113,306
Scotland Neck's covered-employee payroll	\$ 711,501	\$ 711,113	\$ 553,023	\$ 562,446	\$ 568,885	\$ 550,715
Scotland Neck's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	40.91%	27.22%	32.28%	6.77%	(9.72%)	20.57%
Plan fiduciary net position as a percentage of the total pension liability**	94.18	94.18	91.47%	98.09%	102.64%	94.35%

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

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



**Town of Scotland Neck  
Town of Scotland Neck'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	\$ 58,535	\$ 56,169	\$ 53,389	\$ 38,260	\$ 40,382	\$ 40,515
Contributions in relation to the contractually required contribution	58,535	56,169	53,389	38,260	40,382	40,515
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Scotland Neck's covered-employee payroll	\$ 752,737	\$ 711,501	\$ 711,113	\$ 553,023	\$ 562,446	\$ 568,885
Contributions as a percentage of covered-employee payroll	7.78%	7.89%	7.51%	6.92%	7.18%	7.12%

**Town of Scotland Neck**  
**Schedule of Changes in Total Pension Liability**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2019**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Beginning Balance	\$ 62,305	\$ 56,594	\$ 51,911
Service cost	10,797	9,133	3,940
Interest on the total pension liability	1,969	2,185	1,853
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(6,198)	(12,449)	-
Changes of assumptions or other inputs	(5,074)	6,842	(1,110)
Benefit payments	-	-	-
Other changes	-	-	-
Ending Balance of the Total Pension Liability	<u>\$ 63,799</u>	<u>\$ 62,305</u>	<u>\$ 56,594</u>

**Town of Scotland Neck**  
**Schedule of Total Pension Liability as a Percentage of Covered Payroll**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2019**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Total Pension Liability	\$ 63,799	\$ 62,305	\$ 56,594
Covered Payroll	277,306	352,090	149,168
Total Pension Liability as a Percentage of Covered Payroll	23.01%	17.70%	37.94%

Notes to the schedules:

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

**Town of Scotland Neck  
General Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Annual Budget and Actual  
For the Fiscal Year Ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Ad valorem taxes:			
Current year		\$ 244,519	
Prior years		493,965	
Penalties and interest		6,409	
Total	\$ 646,800	744,893	\$ 98,093
Unrestricted intergovernmental:			
Utility sales tax		158,202	
Beer and wine tax		11,530	
Local option sales tax		296,804	
Total	208,000	466,536	258,536
Restricted intergovernmental:			
Powell Bill allocation		61,612	
Administration on Aging - Senior Center		94,099	
FEMA reimbursement		-	
Governor's Crime Commission		21,241	
County supplement		2,800	
Fire district taxes and supplement		114,780	
Total	177,098	294,532	117,434
Permits, fees, sales, services, and other			
Miscellaneous/refunds/rentals/other		145,995	
Business registration fee		11,188	
Solid waste fees		214,484	
Total	607,000	371,667	(235,333)
Investment earnings	-	3,659	3,659
<b>Total revenues</b>	1,638,898	1,881,287	242,389
<b>Expenditures:</b>			
General government and administration:			
Salaries and employee benefits		143,114	
Operating expenses		124,940	
Total	71,313	268,054	(196,741)

**Town of Scotland Neck  
General Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Annual Budget and Actual  
For the Fiscal Year Ended June 30, 2019**

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Public safety:			
Police:			
Salaries and employee benefits		441,178	
Operating expenses		401,416	
Fire and rescue:			
Contract and operating expenses		-	
Debt services		-	
Capital outlay		355,500	
Total	<u>746,121</u>	<u>1,198,094</u>	<u>(451,973)</u>
Transportation:			
Salaries and employee benefits		278,871	
Operating expenses		80,399	
Powell Bill		74,870	
Debt service		40,488	
Capital outlay		-	
Total	<u>578,654</u>	<u>474,628</u>	<u>104,026</u>
Environmental protection:			
Salaries and employee benefits		29,615	
Solid waste fees		69,783	
Operating expenses		30,321	
Total	<u>50,222</u>	<u>129,719</u>	<u>(79,497)</u>
Culture and recreation:			
Salaries and employee benefits		73,381	
Other operating expenditures		263,751	
Capital outlay		-	
Total	<u>220,088</u>	<u>337,132</u>	<u>(117,044)</u>
<b>Total expenditures</b>	<u>1,666,398</u>	<u>2,407,627</u>	<u>(741,229)</u>
<b>Revenues over (under) expenditures</b>	<u>(27,500)</u>	<u>(526,340)</u>	<u>(498,840)</u>

**Town of Scotland Neck  
General Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balances - Annual Budget and Actual  
For the Fiscal Year Ended June 30, 2019**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Transfers	27,500	25,244	(2,256)
Forgiveness of interfund debt	-	-	-
Fund balance appropriated	-	-	-
Total	<u>27,500</u>	<u>25,244</u>	<u>(2,256)</u>
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	(501,096)	<u>\$ (501,096)</u>
Fund balances, beginning,		1,437,769	
Fund balances, ending		<u>\$ 936,673</u>	

**Town of Scotland Neck  
Combining Balance Sheet  
Non-major Governmental Funds  
June 30, 2019**

	OCH Fund	Marketing Fund	Total Non-major Governmental Funds
<b>Assets</b>			
Cash and cash equivalents	\$ 106,060	\$ 2,334	\$ 108,394
Grants receivable	-	-	-
Due from other funds	11,407	-	11,407
	<u>11,407</u>	<u>-</u>	<u>11,407</u>
Total assets	<u>\$ 117,467</u>	<u>\$ 2,334</u>	<u>\$ 119,801</u>
<b>Liabilities and Fund Balances</b>			
Liabilities			
Due to other funds	\$ -	\$ -	\$ -
Accounts payable	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances			
Restricted for			
Economic Development	117,467	2,334	119,801
	<u>117,467</u>	<u>2,334</u>	<u>119,801</u>
Total fund balances	<u>117,467</u>	<u>2,334</u>	<u>119,801</u>
Total liabilities and fund balances	<u>\$ 117,467</u>	<u>\$ 2,334</u>	<u>\$ 119,801</u>

**Town of Scotland Neck**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balance**  
**Non-major Governmental Funds**  
**June 30, 2019**

	OCH Fund	Marketing Fund	Total Non-major Governmental Funds
<b>Revenues</b>			
Program income	\$ -	\$ 7,526	\$ 7,526
Restricted intergovernmental	-	-	-
Interest and economic incentives	292	-	292
	<u>292</u>	<u>-</u>	<u>292</u>
Total revenues	<u>292</u>	<u>7,526</u>	<u>7,818</u>
<b>Expenditures</b>			
Economic and physical development	-	12,239	12,239
Cultural and recreational	-	-	-
Community Development	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>12,239</u>	<u>12,239</u>
Revenues over (under) expenses	292	(4,713)	(4,421)
Other Financing Sources (Uses)			
Operating transfer in/out	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	292	(4,713)	(4,421)
Fund balance, beginning	<u>117,175</u>	<u>7,047</u>	<u>124,222</u>
Fund balance, ending	<u>\$ 117,467</u>	<u>\$ 2,334</u>	<u>\$ 119,801</u>



**Town of Scotland Neck**  
**Special Revenue Fund - OCH Grant Project Fund**  
**Balance Sheet**  
**June 30, 2019**

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**Assets**

Cash and cash equivalents	\$ 106,060
Note receivable - local business	-
Due from other funds	<u>11,407</u>
Total assets	<u><u>\$ 117,467</u></u>

**Liabilities and Fund Balances**

Liabilities	
Due to other funds	\$ -
Unearned revenues	<u>-</u>
Total liabilities	<u>-</u>
Fund balances	
Restricted for	
Economic Development	<u>117,467</u>
Total fund balances	<u>117,467</u>
Total liabilities and fund balances	<u><u>\$ 117,467</u></u>

**Town of Scotland Neck**  
**Special Revenue Fund - OCH Grant Project Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**June 30, 2019**

	<u>Prior Years</u>	<u>June 30, 2019</u>	<u>Total to Date</u>
<b>Revenues</b>			
Payments from local businesses	\$ 749,476	\$ -	\$ 749,476
Interest and economic incentives	<u>233,213</u>	<u>292</u>	<u>233,505</u>
Total revenues	<u>982,689</u>	<u>292</u>	<u>982,981</u>
<b>Expenditures</b>			
Economic and physical development			
Hospital Heliport	5,000	-	5,000
Public safety - police grant	8,417	-	8,417
Medical Access Plan	7,499	-	7,499
Recreation department	58,903	-	58,903
Business development	445,363	-	445,363
Library expansion	50,000	-	50,000
Community development	388,186	-	388,186
Administration	<u>2,479</u>	<u>-</u>	<u>2,479</u>
Total expenditures	<u>965,847</u>	<u>-</u>	<u>965,847</u>
Revenues over (under) expenses	16,842	292	17,134
Other Financing Sources (Uses)			
Operating transfer in/out	<u>27,000</u>	<u>-</u>	<u>27,000</u>
Excess (deficiency) of revenues over expenditures	<u>\$ 43,842</u>	292	<u>\$ 44,134</u>
Fund balance - beginning of year		<u>117,175</u>	
Fund balance, ending		<u>\$ 117,467</u>	

**Town of Scotland Neck**  
**Special Revenue Fund - OCH Grant Project Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2019 and From Inception**

	Actual			Variance
	Project Authorization	Prior Years	Current Year	Favorable (Unfavorable)
Revenues:				
Payments from local businesses	\$ 692,184	\$ 749,476	\$ -	\$ 749,476 \$ 57,292
Community Development Block Grant	308,524	-	-	- (308,524)
Interest and other	162,337	233,301	292	233,593 71,256
Total revenues	1,163,045	982,777	292	983,069 (179,976)
Expenditures:				
Economic and physical development				
Hospital Heliport	5,000	5,000	-	5,000 -
Public safety - police grant	8,417	8,417	-	8,417 -
Medical Access Plan	7,499	7,499	-	7,499 -
Recreation department	58,903	58,903	-	58,903 -
Community development	527,476	388,186	-	388,186 139,290
Library expansior	50,000	50,000	-	50,000 -
Business development	523,271	445,363	-	445,363 77,908
Administration	2,479	2,479	-	2,479 -
Total expenditures	1,183,045	965,847	-	965,847 217,198
Excess (Deficit) of revenues over (under) expenditures	(20,000)	16,930	292	17,222 37,222
Other financing sources (uses):				
Transfers	20,000	40,000	-	40,000 20,000
Total other financing sources (uses)	20,000	40,000	-	40,000 20,000
Excess (Deficit) of revenues & other financing sources over (under) expenditures & other financing uses	\$ -	\$ 56,930	292	\$ 57,222 \$ 57,222
Fund balance - beginning of year			117,175	
Fund balance - end of year			<u>\$ 117,467</u>	

**Town of Scotland Neck  
Special Revenue Fund - Marketing Fund  
Balance Sheet  
June 30, 2019**

**Assets**

Cash and cash equivalents	
Note receivable - local business	\$ 2,334
Due from other funds	<u>-</u>
Total assets	<u><u>\$ 2,334</u></u>

**Liabilities and Fund Balances**

Liabilities

Accounts payable and accrued liabilities	\$ -
Unearned revenues	<u>-</u>
Total liabilities	<u>-</u>

Fund balances

Restricted for Economic Development	<u>2,334</u>
Total fund balances	<u>2,334</u>

Total liabilities and fund balances	<u><u>\$ 2,334</u></u>
-------------------------------------	------------------------

**Town of Scotland Neck**  
**Special Revenue Fund - Marketing Fund**  
**Statement of Revenues, Expenditures and Changes in Fund Balance**  
**June 30, 2019**

	<u>Prior Years</u>	<u>June 30, 2019</u>	<u>Total to Date</u>
<b>Revenues</b>			
Grant revenues and town contributions	\$ 532,576	\$ 7,526	\$ 540,102
Interest and economic incentives	<u>78,088</u>	<u>-</u>	<u>78,088</u>
Total revenues	<u>610,664</u>	<u>7,526</u>	<u>618,190</u>
<b>Expenditures</b>			
Economic and physical development			
Marketing/economic incentives	462,255	12,239	474,494
Salary/benefits	131,050	-	131,050
Administration	<u>22,494</u>	<u>-</u>	<u>22,494</u>
Total expenditures	<u>615,799</u>	<u>12,239</u>	<u>628,038</u>
Revenues over (under) expenses	(5,135)	(4,713)	(9,848)
Other Financing Sources (Uses)			
Operating transfer in/out	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (5,135)</u>	<u>(4,713)</u>	<u>\$ (9,848)</u>
Fund balance, beginning		<u>7,047</u>	
Fund balance, ending		<u>\$ 2,334</u>	

**Town of Scotland Neck**  
**Special Revenue Fund - Marketing Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**For the Fiscal Year Ended June 30, 2019 and From Inception**

		Actual			Variance
	Project Authorization	Prior Years	Current Year	Total Project To Date	Favorable (Unfavorable)
Revenues:					
Grant revenues and town contributions	\$ 598,312	\$ 532,576	\$ 7,526	\$ 540,102	\$ (58,210)
Interest and other revenue	17,487	61,354	-	61,354	43,867
Total revenues	615,799	593,930	7,526	601,456	(14,343)
Expenditures:					
Economic and physical development					
Marketing/Economic incentives	462,255	462,255	12,239	474,494	(12,239)
Salary/benefits	131,050	131,050	-	131,050	-
Administration	22,494	22,494	-	22,494	-
Total expenditures	615,799	615,799	12,239	628,038	(12,239)
Excess (Deficit) of revenues over (under) expenditures	-	(21,869)	(4,713)	(26,582)	(26,582)
Other financing sources (uses):					
Transfers	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Excess (Deficit) of revenues & other financing sources over (under) expenditures & other financing uses	\$ -	\$ (21,869)	(4,713)	\$ (26,582)	\$ (26,582)
Fund balance - beginning of the year			7,047		
Fund balance - end of the year			\$ 2,334		

**Town of Scotland Neck  
Electric Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Operating revenues:			
Electricity sales		\$ 3,539,748	
Other operating revenues		23,783	
Total operating revenues	\$ 3,650,598	3,563,531	\$ (87,067)
Non-operating revenues:			
Miscellaneous and investment		-	-
<b>Total revenues</b>	3,650,598	3,563,531	(87,067)
<b>Expenditures:</b>			
Electrical operations:			
Salaries and employee benefits		385,137	
Utility purchases/costs		2,522,807	
Supplies		43,999	
Other operating expenditures		136,975	
Total electrical operations	3,650,598	3,088,918	561,680
Capital outlay:			
Equipment purchases		-	
Total capital outlay	-	-	-
<b>Total expenditures</b>	3,650,598	3,088,918	561,680
Revenues over (under) expenditures before other financing sources (uses)	-	474,613	474,613
Other financing sources (uses):			
Sales tax adjustments	-	(148,413)	(148,413)
Transfers	-	(7,500)	(7,500)
<b>Revenues over (under) expenditures</b>	\$ -	\$ 318,700	\$ 318,700

**Reconciliation of Modified Accrual Basis to Full Accrual Basis**

Revenues over (under) expenditures	\$ 318,700
Reconciling items:	
Depreciation	(29,625)
Increase in compensated absences	(3,263)
Increase in net pension liability	37,059
Increase in deferred outflows of resources - pensions	899
Increase in deferred inflows of resources - pensions	(894)
Pension expense	(29,456)
Net Income (Loss)	\$ 293,420

**Town of Scotland Neck  
Water and Sewer Fund  
Statement of Revenues, Expenditures, and  
Changes in Fund Balance - Budget and Actual  
For the Fiscal Year Ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Operating revenues:			
Water and sewer charges		\$ 1,359,004	
Other operating revenues		18,403	
Total operating revenues	\$ 1,373,769	1,377,407	\$ 3,638
Non-operating revenues:			
Interest on investments			
Miscellaneous		10,400	
Total non-operating revenues		10,400	10,400
<b>Total revenues</b>	1,373,769	1,387,807	14,038
<b>Expenditures:</b>			
Water and sewer distribution:			
Salaries and employee benefits		37,608	
Purchase of water/operating supplies		306,886	
Maintenance and repairs		585,268	
Other operating expenditures		343,343	
Total water/sewer operations	1,294,769	1,273,105	21,664
Debt service:			
Principal retirement		43,000	
Interest		14,710	
Total debt service	79,000	57,710	21,290
Capital outlay:			
Water distribution system		-	
Total capital outlay	-	-	-
<b>Total expenditures</b>	1,373,769	1,330,815	42,954
Revenues over (under) expenditures before other financing sources (uses)	-	56,992	56,992
Other financing sources (uses):			
Forgiveness of interfund debt	-	-	-
Operating transfers to (from) other funds		(20,000)	(20,000)
<b>Revenues over (under) expenditures</b>	\$ -	\$ 36,992	\$ 36,992
<b>Reconciliation of Modified Accrual Basis to Full Accrual Basis</b>			
Revenues over (under) expenditures		\$ 36,992	
Reconciling items:			
Capital contributions		1,098,204	
Depreciation		(453,652)	
Increase in net pension liability		(8,777)	
Increase in deferred outflows of resources - pensions		1,157	
Decrease in deferred inflows of resources - pensions		(211)	
Pension expense		(7,832)	
Principal repayments		43,000	
Net Income (Loss)		\$ 708,881	



**Town of Scotland Neck**  
**CDBG 15-I-2752 Project Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**From Inception and for the Fiscal Year Ended June 30, 2019**

	Actual				Variance
	Project Authorization	Prior Years	Current Year	Total Project To Date	Favorable (Unfavorable)
Revenues:					
NC DENQ	\$ 1,563,780	\$ 1,015,721	\$ 548,059	\$ 1,563,780	\$ -
Expenditures:					
Administration	104,100	78,500	25,600	104,100	-
Construction	1,459,680	937,221	522,459	1,459,680	-
Total expenditures	1,563,780	1,015,721	548,059	1,563,780	-
Revenues over expenditures	\$ -	\$ -	\$ -	\$ -	\$ -

**Town of Scotland Neck**  
**CDBG 15-I-2753 Project Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual**  
**From Inception and for the Fiscal Year Ended June 30, 2019**

		Actual			Variance
	Project	Prior	Current	Total Project	Favorable
	Authorization	Years	Year	To Date	(Unfavorable)
Revenues:					
NC DENQ	\$ 1,287,400	\$ 737,255	\$ 550,145	\$ 1,287,400	\$ -
Expenditures:					
Administration	82,520	67,786	14,734	82,520	-
Construction	1,204,880	669,469	535,411	1,204,880	-
Total expenditures	1,287,400	737,255	550,145	1,287,400	-
Revenues over expenditures	\$ -	\$ -	\$ -	\$ -	\$ -

## **OTHER SCHEDULES**

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This section contains additional information required  
on property taxes.

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Schedule of Ad Valorem Taxes Receivable

Analysis of Current Tax Levy

**Town of Scotland Neck  
General Fund  
Schedule of Ad Valorem Taxes Receivable  
June 30, 2019**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2018</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Abatements and Adjustments</u>	<u>Uncollected Balance June 30, 2019</u>
2017	\$	\$ 545,867	\$ (537,952)	\$ -	\$ 7,915
2016	23,650	-	(9,843)	-	13,807
2015	13,910	-	(2,737)	-	11,173
2014	13,676	-	(1,518)	-	12,158
2013	15,183	-	(959)	-	14,224
2012	10,677	-	(630)	-	10,047
2011	11,098	-	(327)	-	10,771
2010	7,230	-	(717)	-	6,513
2009	29,951	-	-	-	29,951
2008	3,401	-	(76)	-	3,325
	<u>\$ 128,776</u>	<u>\$ 545,867</u>	<u>\$ (554,759)</u>	<u>\$ -</u>	<u>\$ 119,884</u>

Ad valorem taxes receivable	<u><u>\$ 119,884</u></u>
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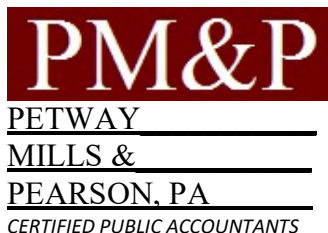
Reconcilement with revenues:

Ad valorem taxes - General Fund	\$ 548,350
Reconciling items:	
Interest collected	(6,409)
Adjustments	<u>12,818</u>
Subtotal	<u>6,409</u>
Total collections and credits	<u><u>\$ 554,759</u></u>

**Town of Scotland Neck  
Analysis of Current Tax Levy  
Town - Wide Levy  
For the Fiscal Year Ended June 30, 2019**

				Total Levy	
	Town - Wide			Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Property Valuation	Rate	Total Levy		
Original levy:					
Property taxed at current year's rate	\$ 69,537,166	0.7850	\$ 545,867	\$ 543,350	\$ 75,591
Abatements and adjustments			-	-	-
Net levy			545,867	543,350	75,591
Uncollected taxes at June 30, 2019			(7,915)	(7,915)	-
Current year's taxes collected			<u>\$ 537,952</u>	<u>\$ 535,435</u>	<u>\$ 75,591</u>
Current levy collection percentage			<u>98.55%</u>	<u>98.54%</u>	<u>100.00%</u>

## **COMPLIANCE SECTION**



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

C. Briggs Petway, Jr.  
Phyllis M. Pearson

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Association

To the Honorable Mayor and Members of the Board of Commissioners  
Town of Scotland Neck  
Scotland Neck, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to 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, each major fund, and the aggregate remaining fund information of the Town of Scotland Neck, 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 Scotland Neck's basic financial statements, and have issued our report thereon dated December 18, 2019.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the Town of Scotland Neck'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 Scotland Neck'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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit the attention of those charged with governance.

Our consideration of the internal control over financial reporting 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 significant deficiencies or material weaknesses and therefore, material weaknesses or significant deficiencies may exist there were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiency. Findings 2019-001 and 2019-002.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Scotland Neck's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements,

noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2019-001 and 2019-002.

#### Town of Scotland Neck's Responses to findings

The Town's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Town's response and, accordingly, we express no opinion on it.

#### Purpose of this Report

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

*Petway Mills & Pearson, PA*

PETWAY MILLS & PEARSON, PA  
Certified Public Accountants  
Zebulon, North Carolina

December 18, 2019





PETWAY

MILLS &

PEARSON, PA

CERTIFIED PUBLIC ACCOUNTANTS

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## Independent Auditors' Report on Compliance for Each Major Federal Program and on Internal Control over Compliance in Accordance with Uniform Guidance and the State Single Audit Implementation Act

To the Board of Directors  
Town of Scotland Neck  
Scotland Neck, North Carolina

### Report on Compliance for Each Major Federal Program

We have audited the Town of Scotland Neck's compliance with the types of compliance requirements described in the *OMB Uniform Guidance Compliance Supplement* and *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on the Town of Scotland Neck's major Federal program as of and for the year ended June 30, 2019. The Town of Scotland Neck's major Federal program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

### Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its Federal programs.

### Auditors' Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for the major Federal program. However, our audit does not provide a legal determination of the Town of Scotland Neck's compliance.

### Opinion on Each Major Federal Program

In our opinion, the Town of Scotland Neck complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major Federal program as of and for the year ended June 30, 2019.

### Other Matters

The results of our auditing procedures disclosed an instance of noncompliance, which is required to be reported in accordance with Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2019-002. Our opinion on each major Federal program is not modified with respect to these matters.

The Town of Scotland Neck's response to the noncompliance finding identified in our

audit is described in the accompanying schedule of findings and questioned costs and corrective action plan. The Town of Scotland Neck's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly we express no opinion on the response.

### **Report on Internal Control Over Compliance**

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. However, we did identify a deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2019-002 that we consider to be a significant deficiency.

The Town of Scotland Neck's response to the internal control compliance finding identified in our audit as described in the accompanying schedule of findings and questioned costs and corrective action plan. The Town of Scotland Neck's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

*Petway Mills & Pearson, PA*

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PETWAY MILLS & PEARSON, PA  
Certified Public Accountants  
Zebulon, North Carolina

December 18, 2019

**Town of Scotland Neck  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2019**

**Section II - Summary of Auditors' Results**

**Financial Statements**

Type of auditors' report issued: Unmodified.

Internal control over financial reporting:

Material weakness(es) identified?        yes   x   no

Significant deficiency(ies) identified  
that are not considered to be  
material weaknesses?   x   yes        none reported

Noncompliance material to financial  
statements noted        yes   x   no

**Section III - Federal Awards**

**Internal Control Over Major Federal Programs**

Material weakness(es) identified?        yes   x   no

Significant deficiency(ies) identified  
that are not considered to be  
material weaknesses?   x   yes        none reported

Type of auditor's report issued on compliance for major Federal programs: unmodified

Any audit findings disclosed that are required  
to be reported in accordance with  
Uniform Guidance   x   yes        no

Identification of major federal Program:

<b>Program Name</b>	<u>CFDA #</u>
Community Development Block Grant Program	<u>14.228</u>

Dollar threshold used to distinguish between Type A and Type B programs	<u><u>\$ 750,000</u></u>
--	--------------------------

Auditee qualified as low-risk auditee?        yes   X   no

**Town of Scotland Neck  
Schedule of Findings and Questioned Costs  
For the Year Ended June 30, 2019**

**Section II - Financial Statement Findings**

**Significant Deficiency**

2019-001	Expenditures in Excess of Appropriations
Criteria:	North Carolina General Statutes require all moneys expended by a local government to be included in the budget.
Condition:	The Town's General Fund expenditures exceeded authorized appropriations made by the governing board for, General government by \$196,741, Public Safety \$126,885 Environmental Protection by \$79,497, Culture and Recreation by \$117,044, and Capital Outlay by \$325,088.
Effect:	The Town did not comply with North Carolina General Statutes.
Cause:	The Town did not properly budget for expenses. This is mainly due to the Town not budgeting for the grant funding received during the year and the corresponding expenditures.
Recommendation:	We recommend that the Town review budget to actual reports regularly and look more closely at expenditure accruals at year end to ensure that all expenditures related to the fiscal year are accounted for in the budget.
Views of responsible officials and planned corrective actions:	The Town agrees with this finding. The Town will review budget to actual reports regularly and look more closely at expenditure accruals at year end to ensure that all expenditures related to the fiscal year are accounted for in the budget.

**Section III - Federal Awards**

**Significant Deficiency**

2019-002	Timely Filing of Federal audits
Criteria:	Regulations required the Town to submit its audits and the related data collection form to the Federal Audit Clearinghouse.
Condition:	The data collection form was submitted late for 2018.
Effect:	The Town did not comply with federal regulations.
Cause:	The Town does not have consistent federal audits.
Recommendation:	We recommend the Town become more familiar for federal audit requirements.
Views of responsible officials and planned corrective actions:	The Town agrees with this finding. The Town will review federal audit requirements more closely.



# TOWN OF SCOTLAND NECK

P.O. Box 537  
1310 MAIN STREET  
SCOTLAND NECK, NC 27874

## Section II - Financial Statement Findings

### Significant Deficiency

2019-001

Contact Person: Nancy Dempsey, Town Administrator

Corrective Action: The Town will review budget to actual reports regularly and look more closely at expenditure accruals at year end to ensure that all expenditures related to the fiscal year are accounted for in the budget.

Completion Date: June 30, 2020

## Section III - Federal Awards

2019-001

Contact Person: Nancy Dempsey, Town Administrator

Corrective Action: The Town will review federal regulations more closely.

Completion Date: June 30, 2020

**Town of Scotland Neck  
Summary Schedule of Prior Year Audit Findings  
For the Fiscal Year Ended June 30, 2019**

Finding 2018-001 stated the Town was not submit the report to the State in a timely manner. In 2019, this finding was resolved.

**Town of Scotland Neck**  
**Schedule of Expenditures of Federal and State Awards**  
**For the Year Ended June 30, 2019**

Grantor/Pass-through/	Grantor-Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Federal Expenditures	State Expenditures	Total
FEDERAL AWARDS						
U.S. Department of Health & Human Services						
Passed-through Upper Coastal Plain Council of Governments						
In-Home Services						
90% State Funds			N/A	\$ -	\$ 12,891	\$ 12,891
Title II-B		93.044		6,616	128	6,744
SSBG		93.667		4,470	389	4,859
Total In-Home Services				11,086	13,408	24,494
Home-Delivered Meals						
90% State Funds			N/A	-	8,234	8,234
Title III-C2		93.045		12,559	739	13,298
Total Home-Delivered Meals				12,559	8,973	21,532
Congregate Nutrition						
Title III-C1		93.045		17,906	1,053	18,959
Total Congregate Nutrition				17,906	1,053	18,959
Fan/Heat Program						
Senior Center Development			N/A	-	-	-
Total U.S. Department of Health & Human Services				41,551	34,127	75,678
U.S. Department of Agriculture						
Passed-through Upper Coastal Plain Council of Governments						
NSIP Supplement				6,440	-	6,440
Total U.S. Department of Agriculture				6,440	-	6,440
U.S. Department of Interior						
Passed-through NC Governor's Crime Commission						
Byrne Justice Assistance Grant			16.738	21,241	-	21,241
Total U.S. Department of Interior				21,241	-	21,241
U.S. Department of Housing and Urban Development						
Passed Through NC Department of Environmental Quality Division of Water Infrastructure						
Community Development Block Grant Program		14.228	15-I-2752	548,059	-	548,059
Community Development Block Grant Program		14.228	15-I-2753	550,145	-	550,145
Total U.S. Department of Housing and Urban Development				1,098,204	-	1,098,204
TOTAL FEDERAL AWARDS				1,208,987	57,561	1,266,548
STATE AWARDS						
NC Department of Transportation						
Powell Bill			DOT-4	-	75,679	75,679
TOTAL STATE AWARDS				-	75,679	75,679
TOTAL FEDERAL AND STATE AWARDS				\$ 1,208,987	\$ 133,240	\$ 1,342,227

**Notes to the Schedule of Expenditures of Federal and State Financial Awards**

**Note 1: Basis of Presentation**

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

**Note 2: Summary of Significant Accounting Policies**

Expenditures reported in the Schedule of Expenditures of Federal and State Awards are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for the Federal Awards*, wherein certain types of expenditures are not allowable or are limited as to reimbursements.

**Note 3: Indirect Costs**

The Town of Scotland Neck has elected not to use the 10-percent de minimus indirect cost rate as allowed under the Uniform Guidance.