

**Town of Carthage
Carthage, North Carolina**

Audited Financial Statements

Year Ended June 30, 2020

Town of Carthage, North Carolina

Audited Financial Statements

For the Year Ended June 30, 2020

Board of Commissioners

Jimmy Chalflinch, Mayor

Milton "T" Dowdy, Jr., Mayor Pro-Tem

Al Barber

Christopher M. Nance

Dan Bonillo

Dustin Smith

Administrative and Financial Staff

Tom Robinson, Town Manager

Kesha Matthews, Finance Director

Town of Carthage, North Carolina
Table of Contents
June 30, 2020

Financial Section:	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	4
 Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Position.....	11
Statement of Activities	12
Fund Financial Statements:	
Balance Sheet - Governmental Funds.....	13
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds.....	15
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund.....	17
Statement of Fund Net Position - Proprietary Fund	18
Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund	19
Statement of Cash Flows - Proprietary Fund.....	20
Notes to the Financial Statements	21
 Required Supplemental Financial Data:	
Schedule of Proportionate Share of Net Pension Liability - Local Government Employees' Retirement System	49
Schedule of Contributions - Local Government Employees' Retirement System	50
Schedule of Changes in Total Pension Liability - Law Enforcement Officers' Special Separation Allowance	51
Schedule of Total Pension Liability as a Percentage of Covered Payroll	52

Town of Carthage, North Carolina
Table of Contents (continued)
June 30, 2020

	<u>Page</u>
Individual Fund Statements and Schedules:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund.....	53
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Permanent Fund.....	57
Schedules of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual:	
Water Fund	58
Capital Reserve Fund	60
Water Capital Improvement Project Fund.....	61
Sewer Fund.....	62
Sewer Capital Improvements Project Fund.....	64
Other Schedules:	
Schedule of Ad Valorem Taxes Receivable	65
Analysis of Current Tax Levy – Town-Wide Levy	66
Compliance Section:	
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	67
Schedule of Findings and Questioned Costs	69
Corrective Action Plan	71
Summary Schedule of Prior Year Audit Findings	72

Financial Section



S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS
American Institute of CPAs
N. C. Association of CPAs

Independent Auditor's Report

To the Honorable Mayor and
Members of the Board of Commissioners
Carthage, 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 Carthage, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate remaining fund information of the Town of Carthage, North Carolina as of June 30, 2020, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 4 through 10, the Local Government Employee's Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 49 and 50, respectively, the Law Enforcement Officers' Special Separation Allowance schedules of the changes in total Pension Liability and Total Pension Liability as a Percentage of covered Payroll on pages 51 and 52 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

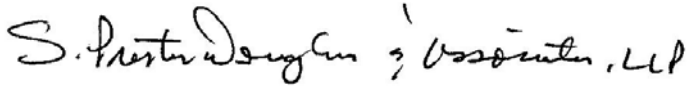
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Carthage, North Carolina. The individual fund statements, budget and actual schedules, and supplemental ad valorem tax schedules, are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2020 on our consideration of the Town of Carthage's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Carthage's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "S. Preston Douglas, CPA". The signature is written in a cursive style with a large initial "S".

Lumberton, North Carolina
September 15, 2020

Management's Discussion and Analysis

Town of Carthage, North Carolina
Management's Discussion and Analysis
June 30, 2020

As management of the Town of Carthage, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Carthage for the fiscal year ending June 30, 2020. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

The assets and deferred outflows of resources of the Town of Carthage exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$10,512,245 (net position).

The government's total net position decreased by \$219,897, primarily due to business-type activities decrease of \$190,498 in net position.

As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,666,321. Approximately 64.88% of this total amount, or \$1,081,156, is available for spending at the government's discretion (unassigned fund balance).

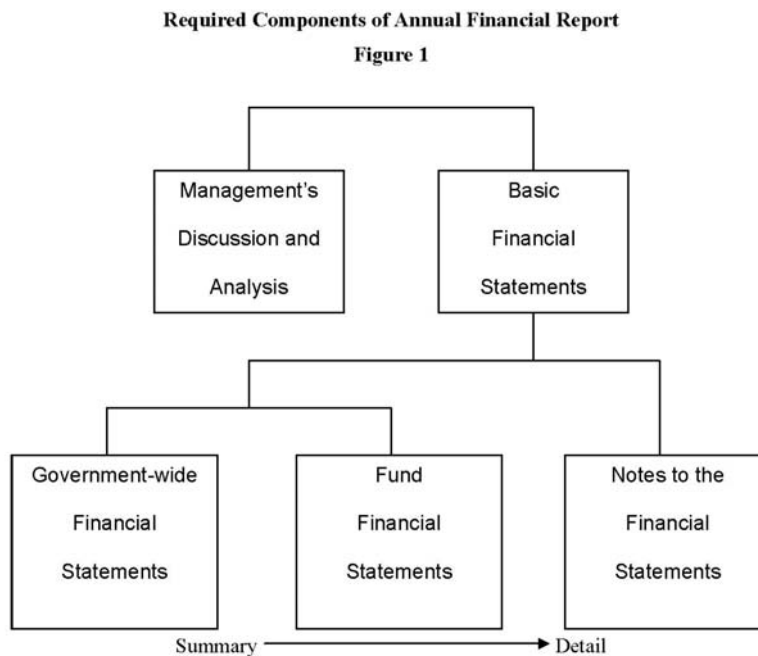
At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,081,156 or 32.71% of total General Fund expenditures.

At the end of the current fiscal year, the Town's Business-Type activities reported an ending net position of \$8,091,706, a decrease of \$190,498 over prior year.

The Town of Carthage's total debt increased by \$247,326 during the current fiscal year.

Overview of the Financial Statements

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



Town of Carthage, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Financial Statements

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

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements.

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

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

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

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

The government-wide statements are divided into two categories: 1) governmental activities, and 2) business-type activities. The governmental activities include most of the Town's basic services such as general government, public safety, highways/streets, sanitation, economic development, culture and recreation, and debt service. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. This includes the water and sewer services offered by the Town of Carthage.

The government-wide financial statements can be found on pages 11 and 12 of this report.

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

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

The Town of Carthage adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them.

Town of Carthage, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Governmental Funds (continued). 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. The Town of Carthage maintains one type of proprietary fund called an Enterprise Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses the enterprise fund to account for its water and sewer activity. Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Funds, which are considered major funds of the Town.

Notes to the Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 21-48 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Carthage's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 49 of this report.

Government-Wide Financial Analysis

The Town of Carthage's Net Position
Figure 2

	Governmental Activities 2020	Governmental Activities 2019	Business-type Activities 2020	Business-type Activities 2019	Totals 2020	Totals 2019
Current and other assets	\$ 1,777,620	\$ 1,641,737	\$ 1,186,101	\$ 1,143,013	\$ 2,963,721	\$ 2,784,750
Capital assets	2,498,535	2,279,644	10,221,872	10,487,945	12,720,407	12,767,589
Deferred Outflows of Resources	311,354	360,402	27,385	33,334	338,739	393,736
Total assets and deferred outflows	4,587,509	4,281,783	11,435,358	11,664,292	16,022,867	15,946,075
Long-term liabilities	2,017,784	1,708,161	3,250,766	3,312,962	5,268,550	5,021,123
Other liabilities	73,089	64,359	104,668	67,056	177,757	131,415
Deferred Inflows of Resources	61,342	59,325	2,973	2,070	64,315	61,395
Total liabilities and deferred inflows	2,152,215	1,831,845	3,358,407	3,382,088	5,510,622	5,213,933
Net position						
Net investment in capital assets	1,257,013	1,244,726	7,027,723	7,224,659	8,284,736	8,469,385
Restricted	424,536	426,485	202,312	155,690	626,848	582,175
Unrestricted	753,745	778,727	846,916	901,855	1,600,661	1,680,582
Total net position	\$ 2,435,294	\$ 2,449,938	\$ 8,076,951	\$ 8,282,204	\$ 10,512,245	\$ 10,732,142

Town of Carthage, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Government-Wide Financial Analysis (continued)

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of resources of the Town exceeded liabilities and deferred inflows of resources by \$10,512,245 at the close of the current fiscal year.

By far the largest portion of the Town's net position, 78.81%, reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure); less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The restricted portion of net position, 5.96%, represents the Town's resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$1,600,661 or 15.23% of the total.

Town of Carthage's Changes in Net Position
Figure 3

	Governmental Activities 2020	Governmental Activities 2019	Business-type Activities 2020	Business-type Activities 2019	Totals 2020	Totals 2019
Revenues:						
Program revenues						
Charges for services	\$ 229,081	\$ 232,113	\$ 1,545,496	\$ 1,429,101	\$ 1,774,577	\$ 1,661,214
Operating grants and contributions	160,918	114,021	-	-	160,918	114,021
Capital grants and contributions	-	-	-	88,106	-	88,106
General revenues						
Property taxes	1,645,785	1,525,675	-	-	1,645,785	1,525,675
Other taxes	675,162	661,519	-	-	675,162	661,519
Other	387,570	287,031	21,676	2,135	409,246	289,166
Total revenues	3,098,516	2,820,359	1,567,172	1,519,342	4,665,688	4,339,701
Expenses:						
General government	763,017	847,970	-	-	763,017	847,970
Public safety	1,680,543	1,519,494	-	-	1,680,543	1,519,494
Streets and sanitation	607,082	516,312	-	-	607,082	516,312
Culture and recreation	27,703	36,788	-	-	27,703	36,788
Interest on long-term debt	34,815	15,003	-	-	34,815	15,003
Water and sewer	-	-	1,772,425	1,942,599	1,772,425	1,942,599
Total expenses	3,113,160	2,935,567	1,772,425	1,942,599	4,885,585	4,878,166
Increase (decrease) in net position before transfers	(14,644)	(115,208)	(205,253)	(423,257)	(219,897)	(538,465)
Transfers	-	120,000	-	(120,000)	-	-
Change in net position	(14,644)	4,792	(205,253)	(543,257)	(219,897)	(538,465)
Net position, beginning	2,449,938	2,445,146	8,282,204	8,825,461	10,732,142	11,270,607
Net position - June 30	\$ 2,435,294	\$ 2,449,938	\$ 8,076,951	\$ 8,282,204	\$ 10,512,245	\$ 10,732,142

Town of Carthage, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Government-Wide Financial Analysis (continued)

Ad valorem taxes were the largest revenue contributor for the governmental funds with 53.37% of total revenues. Other tax revenues were the next largest at 21.89%.

Capital and operating grants for governmental activities furnished resources to support the five functions of the Town: general government, public safety, transportation, cultural and recreation, and non-departmental.

Business-type activities. Business-type activities decreased the Town's net position by \$205,253. Key elements of the change in net position compared to prior year are as follows:

- Operating loss totaled \$150,757.
- Depreciation expense totaled \$305,324.
- Total expenses decreased by \$170,174 compared to the prior year.

Financial Analysis of the Government's Funds

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

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

At the end of the current fiscal year, the Town's governmental funds reported a combined fund balance of \$1,681,076. Of this total amount, \$1,095,911 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that funds are not available for spending because these funds have already been committed 1) to liquidate contracts and purchase orders of the prior year, or 2) for a variety of other restricted purposes.

The General Fund is the principal operating fund of the Town of Carthage. At the end of the fiscal year, unassigned fund balance for the general fund was \$1,095,911 with a total fund balance of \$1,654,476. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 33.15% of total General Fund expenditures.

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

Unrestricted net position of the Water and Sewer Funds at the end of the fiscal year amounted to \$846,916. Other factors concerning these funds have been discussed in the Town's business-type activities.

General Fund Budgetary Highlights

During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories:

- Amendments that adjust for the estimates that are prepared for the original budget ordinance, which reflect actual cost.
- Amendments that recognize new funding from external sources, such as federal and State grants.
- Amendments that appropriate increases that becomes necessary to maintain services and obligations from prior years not completed.

Town of Carthage, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

Capital Assets and Debt Administration

Capital assets. The Town of Carthage's investments in capital assets for its governmental and business-type activities as of June 30, 2020, totals \$12,720,407 (net of accumulated depreciation). The investments in capital assets includes buildings, land, infrastructure, machinery and equipment, park facilities, and vehicles.

Town of Carthage's Capital Assets
(net of depreciation)
Figure 4

	Governmental		Governmental		Business-type		Business-type		Totals	
	Activities		Activities		Activities		Activities		Totals	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Land	\$ 310,390	\$ 310,390	\$ 124,787	\$ 124,787	\$ 435,177	\$ 435,177				
Buildings and improvements	844,209	880,305	1,093,620	1,143,728	1,937,829	2,024,033				
Water & Sewer improvements	-	-	3,467,708	3,629,349	3,467,708	3,629,349				
Equipment	1,343,936	1,088,949	1,080,036	1,134,360	2,423,972	2,223,309				
Construction in progress	-	-	4,455,721	4,455,721	4,455,721	4,455,721				
Total capital assets, net	\$ 2,498,535	\$ 2,279,644	\$ 10,221,872	\$ 10,487,945	\$ 12,720,407	\$ 12,767,589				

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

Long-term debt. At the end of the current fiscal year, the Town of Carthage had total bonded and installment debt outstanding of \$4,435,731. Of this, \$4,435,571 is backed by the full faith and credit of the Town and all debt is covered by pledged collateral and is subject to appropriation.

Town of Carthage's Outstanding Debt
Figure 5

	Governmental		Governmental		Business-type		Business-type		Totals	
	Activities		Activities		Activities		Activities		Totals	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Capital lease obligations	\$ 238,922	\$ -	\$ -	\$ -	\$ 238,922	\$ -				
Installment purchases	1,002,600	1,034,918	-	-	1,002,600	1,034,918				
Revenue bonds	-	-	3,135,000	977,000	3,135,000	977,000				
Note payable	-	-	58,149	2,286,286	58,149	2,286,286				
Compensated absences	82,475	67,689	7,714	5,721	90,189	73,410				
Net pension obligation (LGRS)	512,575	462,540	48,903	43,956	561,478	506,496				
Total pension obligation (LEO)	181,212	143,014	-	-	181,212	143,014				
Total outstanding debt	\$ 2,017,784	\$ 1,708,161	\$ 3,249,766	\$ 3,312,963	\$ 5,267,550	\$ 5,021,124				

Town of Carthage, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2020

North Carolina's General Statutes limit the amount of general obligation debt that a governmental unit can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Carthage is presently at \$51,600,065 (the amount of additional debt the town could obligate itself to under NC General Statute).

Additional information pertaining to the Town of Carthage's long-term debt can be found in the notes on page 42 of this report.

Economic Factors and Next Year's Budgets and Rates

Carthage is experiencing considerable interest in residential and commercial growth. There are over 500 dwelling units either approved or in the planning stages in Carthage proper and a new restaurant has been approved. At Little River there are at least another 500 dwellings, commercial and light industrial development in the planning stages of development. The Town has secured a 73 percent grant from USDA to extend a \$6 million, 16-inch sewer line from the Little River property to the County's 30-inch sewer line south of the traffic Circle in Pinehurst. The Town will now need to consider extending another sewer line from the Carthage proper area to the Little River line to increase sewer capacity in the main part of Town. The Town will also begin to evaluate long term resources to increase the water supply for the expected growth. The Town has also contracted with the Triangle J Council of Governments to begin an update of the Town's land use plan.

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities: The Town's property tax rate will not increase in Fiscal Year 2020-21. That tax base is estimated at \$261,766,000, a 1.8% increase in valuation from the previous year. The \$0.505 tax rate is projected to generate approximately \$1,308,069 in revenue. Tax revenues are estimated to be \$22,411, 1.74% more than FY 2019-20 projected revenues. Because of the COVID-19 pandemic, the current economic situation is uncertain. Even with the uncertainty, we are hoping to maintain the previous year's levels or even see a modest net increase in state revenues. Interest rates are likely to stay low for some time, which will mean very limited interest earnings revenue.

Budgeted expenses in the General Fund will increase by approximately 5.5%, or \$150,440. This increase is due to an increase in the employer retirement contribution rate, the need for increased legal services, an increase in the payment amount for a new fleet of police vehicles and several one-time expenses.

Business-type Activities: The Water and Sewer Fund, for its basic operations, will again operate on its own. Water and Sewer revenues are expected to modestly increase due to continued growth in our customer base. General operating expenses are expected to increase due to maintenance of aging infrastructure and equipment, increased costs of employee benefits and expenses related to the preparation of a new sewer interconnect project.

Request for Information

This financial report is designed to provide a general overview of the Town of Carthage's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Director of Finance, Town of Carthage, 4396 Hwy 15/501, Carthage, North Carolina 28327.

Basic Financial Statements

Town of Carthage, North Carolina
Statement of Net Position
For the Year Ended June 30, 2020

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 1,356,229	\$ 776,474	\$ 2,132,703
Receivables:			
Taxes receivable (net)	23,455	-	23,455
Accounts receivable (net)	15,512	174,537	190,049
Due from other governments	240,136	7,190	247,326
Cash and cash equivalents - restricted	142,288	227,900	370,188
Total current assets	<u>1,777,620</u>	<u>1,186,101</u>	<u>2,963,721</u>
Non-current assets:			
Capital assets (Note 3):			
Non-depreciable improvements	310,390	4,580,508	4,890,898
Other capital assets, net of depreciation	2,188,145	5,641,364	7,829,509
Total capital assets	<u>2,498,535</u>	<u>10,221,872</u>	<u>12,720,407</u>
Total assets	<u>4,276,155</u>	<u>11,407,973</u>	<u>15,684,128</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	311,354	27,385	338,739
Total deferred outflows of resources	<u>311,354</u>	<u>27,385</u>	<u>338,739</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	73,089	79,080	152,169
Current portion of compensated absences	17,000	1,000	18,000
Current portion of long-term liabilities	160,629	87,593	248,222
Customer deposits	-	25,588	25,588
Total current liabilities	<u>250,718</u>	<u>193,261</u>	<u>443,979</u>
Long-term liabilities:			
Non-current portion of long-term debt	1,080,893	3,106,556	4,187,449
Non-current portion of compensated absences	65,475	6,714	72,189
Net pension liability (LGRS)	512,575	48,903	561,478
Total pension liability (LEO)	181,212	-	181,212
Total liabilities	<u>2,090,873</u>	<u>3,355,434</u>	<u>5,446,307</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	61,342	2,973	64,315
Total deferred inflows of resources	<u>61,342</u>	<u>2,973</u>	<u>64,315</u>
NET POSITION			
Net investment in capital assets	1,257,013	7,027,723	8,284,736
Restricted for:			
Stabilization by State Statute	255,648	-	255,648
Streets	142,088	-	142,088
Police-drug crime prevention	200	-	200
Rural development USDA loan - debt service	-	70,319	70,319
Rural development USDA loan - short lived	-	131,993	131,993
Cemetery perpetual maintenance	26,600	-	26,600
Unrestricted	753,745	846,916	1,600,661
Total net position	<u>\$ 2,435,294</u>	<u>\$ 8,076,951</u>	<u>\$ 10,512,245</u>

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

Town of Carthage, North Carolina
Statement of Activities
For the Year Ended June 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 763,017	\$ 46,182	\$ -	\$ -	\$ (716,835)	\$ -	\$ (716,835)
Public safety	1,680,543	14,224	83,155	-	(1,583,164)	-	(1,583,164)
Street and sanitation	607,082	161,475	77,763	-	(367,844)	-	(367,844)
Cultural and recreation	27,703	7,200	-	-	(20,503)	-	(20,503)
Interest on long-term debt	34,815	-	-	-	(34,815)	-	(34,815)
Total governmental activities	3,113,160	229,081	160,918	-	(2,723,161)	-	(2,723,161)
Business-type activities:							
Water	1,011,122	849,867	-	-	-	(161,255)	(161,255)
Sewer	761,303	695,629	-	-	-	(65,674)	(65,674)
Total business-type activities	1,772,425	1,545,496	-	-	-	(226,929)	(226,929)
Total primary government	\$ 4,885,585	\$ 1,774,577	\$ 160,918	\$ -	(2,723,161)	(226,929)	(2,950,090)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					1,645,785	-	1,645,785
Other taxes and licenses					675,162	-	675,162
Unrestricted intergovernmental					198,193	-	198,193
Other general revenues					176,625	15,060	191,685
Investment earnings					12,752	6,616	19,368
Total general revenues not including transfers					2,708,517	21,676	2,730,193
Transfers					-	-	-
Total general revenues and transfers					2,708,517	21,676	2,730,193
Change in net position					(14,644)	(205,253)	(219,897)
Net position, beginning					2,449,938	8,282,204	10,732,142
Net position, ending					\$ 2,435,294	\$ 8,076,951	\$ 10,512,245

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

Town of Carthage, North Carolina
Balance Sheet
Governmental Funds
June 30, 2020

	<u>Major</u> <u>General</u> <u>Fund</u>	<u>Non-Major</u> <u>Perpetual Care</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<u>ASSETS</u>			
Cash and cash equivalents	\$ 1,329,629	\$ 26,600	\$ 1,356,229
Taxes receivable, net	23,455	-	23,455
Accounts receivable, net	15,512	-	15,512
Due from other governments	240,136	-	240,136
Restricted cash and cash equivalents	142,288	-	142,288
Total assets	<u>\$ 1,751,020</u>	<u>\$ 26,600</u>	<u>\$ 1,777,620</u>
<u>LIABILITIES</u>			
Accounts payable and accrued liabilities	\$ 73,089	\$ -	\$ 73,089
Total liabilities	<u>73,089</u>	<u>-</u>	<u>73,089</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Property taxes receivable	23,455	-	23,455
Total deferred inflows of resources	<u>23,455</u>	<u>-</u>	<u>23,455</u>
<u>FUND BALANCES</u>			
Non Spendable:			
Perpetual maintenance	-	26,600	26,600
Restricted:			
Stabilization by State Statute	255,648	-	255,648
Streets	142,088	-	142,088
Police-drug crime prevention	200	-	200
Debt service	160,629	-	160,629
Unassigned	1,095,911	-	1,095,911
Total fund balances	<u>1,654,476</u>	<u>26,600</u>	<u>1,681,076</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,751,020</u>	<u>\$ 26,600</u>	

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

Town of Carthage, North Carolina
Balance Sheet
Governmental Funds (continued)
June 30, 2020

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

Total fund balances, governmental funds	\$	1,681,076
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		
Gross capital assets at historical cost	\$	5,366,396
Accumulated depreciation		<u>(2,867,861)</u>
		2,498,535
Deferred outflows of resources related to pensions are not reported in the funds		
		311,354
Earned revenues are considered deferred inflows of resources in fund statements		
		23,455
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds		
		(1,323,997)
Net pension liability		
		(512,575)
Total pension liability		
		(181,212)
Pension related deferrals		
		<u>(61,342)</u>
Net position of governmental activities	\$	<u>2,435,294</u>

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

Town of Carthage, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2020

	<u>Major</u> <u>General</u> <u>Fund</u>	<u>Non-Major</u> <u>Perpetual Care</u> <u>Fund</u>	<u>Total</u>
Revenues:			
Ad valorem taxes	\$ 1,636,107	\$ -	\$ 1,636,107
Other taxes and licenses	675,162	-	675,162
Unrestricted intergovernmental	198,193	-	198,193
Restricted intergovernmental	162,737	-	162,737
Sales and services	161,475	-	161,475
Investment earnings	12,339	413	12,752
Miscellaneous	212,947	-	212,947
Total revenues	<u>3,058,960</u>	<u>413</u>	<u>3,059,373</u>
Expenditures:			
Current:			
General government	717,200	-	717,200
Public safety	1,788,354	-	1,788,354
Street and sanitation	592,832	-	592,832
Cultural and recreational	14,950	-	14,950
Debt service:			
Principal	161,531	-	161,531
Interest and other charges	30,665	-	30,665
Total expenditures	<u>3,305,532</u>	<u>-</u>	<u>3,305,532</u>
Excess (deficiency) of revenues over expenditures	<u>(246,572)</u>	<u>413</u>	<u>(246,159)</u>
Other financing sources (uses)			
Transfers from/to other funds	230	(230)	-
Installment purchase proceeds	368,135	-	368,135
Total other financing sources (uses)	<u>368,365</u>	<u>(230)</u>	<u>368,135</u>
Net change in fund balances	121,793	183	121,976
Fund balances, beginning	<u>1,532,683</u>	<u>26,417</u>	<u>1,559,100</u>
Fund balances, ending	<u>\$ 1,654,476</u>	<u>\$ 26,600</u>	<u>\$ 1,681,076</u>

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

Town of Carthage, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2020

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

Net change in fund balances - total governmental funds	\$	121,976
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Capital outlay expenditures which were capitalized	\$ 399,808	
Depreciation expense for governmental assets	<u>(180,917)</u>	218,891
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		94,519
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue for tax revenues		9,678
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has an effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
New long-term debt issued	(368,135)	
Principal payments on long-term debt	161,531	
Decrease in accrued interest payable	<u>(4,150)</u>	(210,754)
<p>Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Compensated absences	(14,786)	
Pension expense	<u>(234,168)</u>	<u>(248,954)</u>
Total changes in net position of governmental activities	\$	<u><u>(14,644)</u></u>

Town of Carthage, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2020

	Original	Final	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 1,628,849	\$ 1,614,099	\$ 1,636,107	\$ 22,008
Other taxes and licenses	638,000	640,700	675,162	34,462
Unrestricted intergovernmental	227,700	200,000	198,193	(1,807)
Restricted intergovernmental	45,385	204,591	162,737	(41,854)
Sales and services	153,800	153,800	161,475	7,675
Investment earnings	11,500	12,700	12,339	(361)
Miscellaneous	116,753	65,488	212,947	147,459
Total revenues	2,821,987	2,891,378	3,058,960	167,582
Expenditures:				
Current:				
General government	748,534	792,435	717,200	75,235
Public safety	1,399,637	1,520,402	1,788,354	(267,952)
Street and sanitation	528,471	659,914	592,832	67,082
Cultural and recreational	29,329	28,829	14,950	13,879
Debt service:				
Principal retirement	104,488	169,406	161,531	7,875
Interest and other charges	11,528	31,677	30,665	1,012
Total expenditures	2,821,987	3,202,663	3,305,532	(102,869)
Revenues over (under) expenditures	-	(311,285)	(246,572)	64,713
Other financing sources (uses):				
Transfer from Enterprise Funds	-	-	230	(230)
Installment purchase proceeds	-	-	368,135	(368,135)
Total other financing sources (uses)	-	106,522	368,365	261,843
Fund balance appropriated	-	204,763	-	(204,763)
Net change in fund balances	\$ -	\$ -	121,793	\$ 121,793
Fund balance, beginning			1,532,683	
Fund balance, ending			\$ 1,654,476	

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

Town of Carthage, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2020

<u>ASSETS</u>	<u>Major Enterprise Funds</u>		
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 581,317	\$ 195,157	\$ 776,474
Accounts receivable (net)	86,038	88,499	174,537
Due from other governments	2,287	4,903	7,190
Restricted cash and cash equivalents	102,346	125,554	227,900
Total current assets	<u>771,988</u>	<u>414,113</u>	<u>1,186,101</u>
Non-current assets:			
Capital assets:			
Land and other non-depreciable assets	3,859,207	721,301	4,580,508
Other capital assets, net of depreciation	3,202,058	2,439,306	5,641,364
Capital assets (net)	<u>7,061,265</u>	<u>3,160,607</u>	<u>10,221,872</u>
Total noncurrent assets	<u>7,061,265</u>	<u>3,160,607</u>	<u>10,221,872</u>
Total assets	<u>7,833,253</u>	<u>3,574,720</u>	<u>11,407,973</u>
<u>DEFERRED OUTFLOWS OF RESOURCES</u>			
Pension deferrals	17,726	9,659	27,385
Total deferred outflows of resources	<u>17,726</u>	<u>9,659</u>	<u>27,385</u>
<u>LIABILITIES</u>			
Current liabilities:			
Accounts payable and accrued liabilities	27,215	51,865	79,080
Compensated absences - current	500	500	1,000
Current portion of long-term debt	31,000	56,593	87,593
Liabilities payable from restricted assets:			
Customer deposits	25,588	-	25,588
Total current liabilities	<u>84,303</u>	<u>108,958</u>	<u>193,261</u>
Noncurrent liabilities:			
Compensated absences	3,845	2,869	6,714
Net pension liability	31,099	17,804	48,903
Noncurrent portion of long-term debt	1,645,000	1,461,556	3,106,556
Total noncurrent liabilities	<u>1,679,944</u>	<u>1,482,229</u>	<u>3,162,173</u>
Total liabilities	<u>1,764,247</u>	<u>1,591,187</u>	<u>3,355,434</u>
<u>DEFERRED INFLOWS OF RESOURCES</u>			
Pension deferrals	1,944	1,029	2,973
Total deferred inflows of resources	<u>1,944</u>	<u>1,029</u>	<u>2,973</u>
<u>NET POSITION</u>			
Net investment in capital assets	5,385,265	1,642,458	7,027,723
Restricted:			
USDA loan-debt service	18,295	52,024	70,319
USDA loan-short lived asset	58,463	73,530	131,993
Unrestricted	622,765	224,151	846,916
Total net position	<u>\$ 6,084,788</u>	<u>\$ 1,992,163</u>	<u>\$ 8,076,951</u>

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

Town of Carthage, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2020

	Major Enterprise Funds		
	Water Fund	Sewer Fund	Total
Operating revenues:			
Charges for sales and services	\$ 849,867	\$ 695,629	\$ 1,545,496
Total operating revenues	<u>849,867</u>	<u>695,629</u>	<u>1,545,496</u>
Operating expenses:			
Water operations	790,415	-	790,415
Sewer operations	-	600,514	600,514
Depreciation	186,475	118,849	305,324
Total operating expenses	<u>976,890</u>	<u>719,363</u>	<u>1,696,253</u>
Operating income (loss)	<u>(127,023)</u>	<u>(23,734)</u>	<u>(150,757)</u>
Nonoperating revenues (expenses):			
Investment earnings	4,211	2,405	6,616
Insurance proceeds	15,060	-	15,060
Interest and other charges	(34,232)	(41,940)	(76,172)
Total nonoperating revenue (expenses)	<u>(14,961)</u>	<u>(39,535)</u>	<u>(54,496)</u>
Income (loss) before contributions and transfers	<u>(141,984)</u>	<u>(63,269)</u>	<u>(205,253)</u>
Capital contributions	-	-	-
Transfers in (out)	-	-	-
Total contributions and transfers	<u>-</u>	<u>-</u>	<u>-</u>
Change in net position	(141,984)	(63,269)	(205,253)
Net position, beginning	6,226,772	2,055,432	8,282,204
Total net position, ending	<u>\$ 6,084,788</u>	<u>\$ 1,992,163</u>	<u>\$ 8,076,951</u>

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

Town of Carthage, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020

	Major Enterprise Fund		
	Water Fund	Sewer Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$ 877,071	\$ 665,877	\$ 1,542,948
Cash paid for goods and services	(690,310)	(513,045)	(1,203,355)
Cash paid to employees for services	(87,185)	(53,058)	(140,243)
Net cash provided (used) by operating activities	<u>99,576</u>	<u>99,774</u>	<u>199,350</u>
Cash flows from noncapital financing activities:			
Transfers to other funds	-	-	-
Total cash flows provided (used) by noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
Cash flows from capital and related financing activities:			
Capital contributions and grants	-	-	-
Principal paid on bonds and installment notes	(38,250)	(70,046)	(108,296)
Interest paid on bonds and installment notes	(34,218)	(41,940)	(76,158)
Insurance recovery	15,060	-	15,060
Loan proceeds	-	39,251	39,251
Acquisition and construction of capital assets	-	(39,251)	(39,251)
Net cash provided (used) by capital and related financing activities	<u>(57,408)</u>	<u>(111,986)</u>	<u>(169,394)</u>
Cash flows from investing activities:			
Investment earnings	4,211	2,405	6,616
Net cash provided (used) by investing activities	<u>4,211</u>	<u>2,405</u>	<u>6,616</u>
Net increase (decrease) in cash and cash equivalents	46,379	(9,807)	36,572
Cash and cash equivalents - beginning of year	637,284	330,518	967,802
Cash and cash equivalents - end of year	<u>\$ 683,663</u>	<u>\$ 320,711</u>	<u>\$ 1,004,374</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:			
Operating income (loss)	<u>\$ (127,023)</u>	<u>\$ (23,734)</u>	<u>\$ (150,757)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities :			
Depreciation	186,475	118,849	305,324
Change in assets, deferred outflows of resources, and liabilities:			
(Increase) decrease in accounts receivable	21,939	(28,455)	(6,516)
Increase (decrease) in compensated absences	796	1,197	1,993
Increase (decrease) in accounts payable and accrued liabilities	7,852	27,288	35,140
Increase (decrease) in deposits	2,366	-	2,366
(Increase) decrease in deferred outflows of resources - pensions	3,625	2,324	5,949
Increase (decrease) in net pension liability	3,015	1,933	4,948
Increase (decrease) in deferred inflows of resources - pensions	531	372	903
Total adjustments	<u>226,599</u>	<u>123,508</u>	<u>350,107</u>
Net cash provided (used) by operating activities	<u>\$ 99,576</u>	<u>\$ 99,774</u>	<u>\$ 199,350</u>

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

Notes to the Financial Statements

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statement themselves. The notes supplement the financial statements, and are an integral part thereof, and are intended to be read in conjunction with the financial statements.

Town of Carthage, North Carolina
Notes to the Financial Statements
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Carthage, North Carolina (“the Town”) conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A - Reporting Entity

The Town of Carthage is a municipal corporation that is governed by an elected mayor and a five-member Council. As required by generally accepted accounting principles, these financial statements include all funds, account groups, agencies, boards, commissions, and authorities that are controlled by or are financially independent upon the Town.

B - Basis of Presentation

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

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

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

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

The Town reports the following major governmental 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 general government, public safety, street maintenance and construction, and sanitation services.

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B - Basis of Presentation - Fund Accounting (continued)

The Town reports the following non-major governmental funds:

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

The Town reports the following major enterprise funds:

Water Fund - This fund is used to account for the Town's water operations. A Water Capital Projects Fund and a Capital Reserve Fund have been consolidated into the Water Fund for financial reporting purposes. The budgetary comparison for the Water Capital Projects Fund and the Capital Reserve Fund have been included in the supplemental information.

Sewer Fund - This fund is used to account for the Town's sewer operations. A Sewer Capital Projects Fund has been consolidated into the Sewer Fund for financial reporting purposes. The budgetary comparison for the Sewer Capital Projects Fund has been included in the supplemental information.

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 the liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C - Measurement Focus and Basis of Accounting (continued)

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad Valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts.

Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

D - Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Perpetual Care Fund, the Enterprise Funds, and the Capital Reserve Fund. All annual appropriations lapse at the fiscal year-end. A project ordinance is adopted for the Water Capital Project Fund and the Sewer Capital Project Fund. The Water Capital Project Fund and the Sewer Capital Project Fund are consolidated with the respective operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. All amendments must be approved by the governing board and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

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

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

1. Deposits and Investments (continued)

The Town of Carthage’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 NCCMT Government Portfolio, a SEC-registered (2a7) 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. The NCCMT-Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2020, The Term Portfolios has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4. The USDA requires the Town to establish a Debt Service Reserve account. This account was established for the payment of debt service if revenues are insufficient and is represented as a restricted asset.

Governmental Activities:	
General Fund	
Streets	\$ 142,288
Total Governmental activities	<u>142,288</u>
Business-type activities:	
Water and Sewer Fund	
Customer deposits	25,588
Debt service reserve	70,319
Short lived asset reserve-USDA	<u>131,993</u>
Total business-type activities	<u>227,900</u>
Total restricted cash	<u><u>\$ 370,188</u></u>

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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 other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2019. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenue is 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. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain threshold and an estimated life in excess of one year. Minimum capitalization costs are \$5,000 for all asset categories. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

	<u>Estimated Useful Lives</u>
Buildings	15 - 40
Machinery and equipment	5 - 40
Water and sewer improvements	5 - 40

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meet this criterion – pension related deferrals for the 2020 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criteria for this category – property taxes receivable and pension related deferrals.

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

8. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources 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.

9. Compensated Absences

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

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

10. Net Position / Fund Balances

Net Position

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

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

10. Net Position / Fund Balances (continued)

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Perpetual Maintenance - cemetery resources that are required to be retained in perpetuity for maintenance of the Cross Hill Cemetery.

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

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

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

Restricted for Police - portion of fund balance that is restricted by revenue source for drug crime prevention.

Restricted for Public Safety (debt service) - portion of fund balances that is available for appropriation but segregated for the Town's fire district.

Restricted for Capital Projects - portion of fund balance that is restricted for capital projects (Street Capital Project and Recreation Capital Project).

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. 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 to remove or revise the limitation.

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

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Balances (continued)

10. Net Position / Fund Balances (continued)

Subsequent year's expenditures - portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation.

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

The Town of Carthage has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Director 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 Director has the authority to deviate from this policy if it is in the best interest of the Town.

The Town of Carthage has also adopted a minimum fund balance policy. Available fund balances at the close of each fiscal year should not fall below 25.0% for cash flow purposes. A Targeted Policy equal to 38.5% of the Town's subsequent year's Total Annual Operating Expense Budget. This percentage represents the equivalent of 4.5 months of operating expenses.

11. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Carthage's employer contributions are recognized when due and the Town of Carthage has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A - Noncompliance with North Carolina General Statutes

None

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

None

C - Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2020, the expenditures made in the Town's general fund exceeded the authorized appropriations made by the governing board for the public safety department by \$267,952. Management and the Board will more closely review the budget reports to ensure compliance in future years.

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A - Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the Federal Deposit Insurance Coverage level are collateralized with securities held by the Town's agents in this unit's names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town. 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 policy regarding custodial 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, 2020, the Town's deposits had a carrying amount of \$985,626 and a bank balance of \$875,832. Of the bank balance, \$750,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2020, the Town's petty cash amounted to \$500.

2. Investments

At June 30, 2020, the Town of Carthage had \$1,516,765 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAA by Standard and Poor's. The Town has no policy regarding credit risk.

3. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2020 are net of the following allowance for doubtful accounts:

General fund:	
Garbage fees	\$ 11,449
Total general fund	11,449
Enterprise Funds:	
Water - Accounts receivable	\$ 48,120
Sewer - Accounts receivable	22,974
Total Enterprise Funds	71,094
Total	\$ 82,543

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2020, was as follows:

	Beginning			Ending
Governmental activities:	Balances	Increases	Decreases	Balances
Capital assets not being depreciated:				
Land	\$ 310,390	\$ -	\$ -	\$ 310,390
Total capital assets not being depreciated	310,390	-	-	310,390
Capital assets being depreciated:				
Buildings and improvements	1,507,808	-	-	1,507,808
Furniture and equipment	3,148,390	399,808	-	3,548,198
Total capital assets being depreciated	4,656,198	399,808	-	5,056,006
Less accumulated depreciation for:				
Buildings and improvements	627,503	36,096	-	663,599
Furniture and equipment	2,059,441	144,821	-	2,204,262
Total accumulated depreciation	2,686,944	180,917	-	2,867,861
Total capital assets being depreciated, net	1,969,254			2,188,145
Governmental activities capital assets, net	\$ 2,279,644			\$ 2,498,535

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

General government	\$ 28,317
Public safety	135,265
Streets and sanitation	4,582
Cultural and recreation	12,753
Total depreciation expense	\$ 180,917

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

4. Capital Assets (continued)

Capital asset activity for the Proprietary Funds for the year ended June 30, 2020, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Water fund				
Capital assets not being depreciated:				
Land	\$ 124,787	\$ -	\$ -	\$ 124,787
Construction in progress	3,734,420	-	-	3,734,420
Total capital assets not being depreciated	3,859,207	-	-	3,859,207
Capital assets being depreciated:				
Buildings and improvements	2,091,095	-	-	2,091,095
Machinery and equipment	2,090,410	-	-	2,090,410
Water improvements	2,666,087	-	-	2,666,087
Total capital assets being depreciated	6,847,592	-	-	6,847,592
Less accumulated depreciation for:				
Buildings and improvements	947,367	50,108	-	997,475
Machinery and equipment	961,798	87,827	-	1,049,625
Water improvements	1,549,894	48,540	-	1,598,434
Total accumulated depreciation	3,459,059	186,475	-	3,645,534
Total capital assets being depreciated, net	3,388,533			3,202,058
Water fund capital assets, net	\$ 7,247,740			\$ 7,061,265
	Beginning Balances	Increases	Decreases	Ending Balances
Sewer fund				
Capital assets not being depreciated:				
Construction in progress	\$ 721,301	\$ -	\$ -	\$ 721,301
Total capital assets not being depreciated	721,301	-	-	721,301
Capital assets being depreciated:				
Buildings and improvements	4,596	-	-	4,596
Machinery and equipment	419,432	39,251	-	458,683
Sewer improvements	4,359,766	-	-	4,359,766
Total capital assets being depreciated	4,783,794	39,251	-	4,823,045
Less accumulated depreciation for:				
Buildings and improvements	4,596	-	-	4,596
Machinery and equipment	413,684	5,748	-	419,432
Sewer improvements	1,846,610	113,101	-	1,959,711
Total accumulated depreciation	2,264,890	118,849	-	2,383,739
Total capital assets being depreciated, net	2,518,904			2,439,306
Sewer fund capital assets, net	3,240,205			3,160,607
Business-type activities capital assets, net	\$ 10,294,622			\$ 10,221,872

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Carthage employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Carthage's contractually required contribution rate for the year ended June 30, 2020, was 9.70% of compensation for law enforcement officers and 8.95% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Carthage were \$103,867 for the year ended June 30, 2020.

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

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

At June 30, 2020, the Town reported a liability of \$561,478 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019, the Town's proportion was 0.0206%, which was a decrease of 0.0008% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$235,631. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 96,139	\$ -
Changes of assumptions	91,512	-
Net difference between projected and actual earnings on pension plan investments	13,695	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	33,729
Town contributions subsequent to the measurement date	103,867	-
Total	\$ 305,213	\$ 33,729

\$103,867 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, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2021	\$ 88,900
2022	22,714
2023	46,127
2024	9,824
2025	-
Thereafter	-

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 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	100.0%	

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

a. Local Governmental Employees' Retirement System (continued)

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2018 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

Sensitivity of the Town's proportionate share of the net pension asset to changes in the discount rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.00%, 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%) or one percentage point higher (8.00%) than the current rate:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 1,284,202	\$ 561,478	\$ (39,253)

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

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

b. Law Enforcement Officers' Special Separation Allowance (continued)

1. *Plan Description (continued).*

All full-time Town law enforcement officers are covered by the Separation Allowance. At December 31, 2018, the Separation Allowance's membership consisted of:

Retirees and dependents receiving benefits	-
Terminated plan members entitled to, but not yet receiving benefits	-
Active plan members	11
Total	11

2. *Summary of Significant Accounting Policies*

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

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

3. *Actuarial Assumptions*

The entry age actuarial cost method was used in the December 31, 2018 valuation. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.26 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 amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$0 as benefits came due for the reporting period.

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

b. Law Enforcement Officers' Special Separation Allowance (continued)

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

At June 30, 2020, the Town reported a total pension liability of \$181,212. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the Town recognized pension expense of \$19,812.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 21,876	\$ 22,949
Changes of assumptions	11,650	7,637
Town benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	\$ 33,526	\$ 30,586

\$0 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2021	\$ (1,218)
2022	(1,218)
2023	(1,218)
2024	(244)
2025	4,011
Thereafter	2,827

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 3.26 %, 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 (2.26 %) or 1-percentage-point higher (4.26 %) than the current rate:

	1% Decrease (2.26%)	Discount rate (3.26%)	1% Increase (4.26%)
Total pension liability	\$ 203,209	\$ 181,212	\$ 161,527

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

b. Law Enforcement Officers' Special Separation Allowance (continued)

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

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

	2020
Beginning balance	\$ 143,014
Service Cost	15,472
Interest on the total pension liability	5,206
Differences between expected and actual experience in the measurement of the total pension liability	9,777
Changes of assumptions or other inputs	7,743
Ending balance of the total pension liability	\$ 181,212

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

1. Pension Plan and Postemployment Obligations (continued)

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:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension Expense	\$ 235,631	\$ 19,812	\$ 255,443
Pension Liability	561,478	181,212	742,690
Proportionate share of the net pension liability	0.02056%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	96,139	21,876	118,015
Changes of assumptions	91,512	11,650	103,162
Net difference between projected and actual earnings on plan investments	13,695	-	13,695
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	103,867	-	103,867
Deferred of Inflows of Resources			
Difference between expected and actual experience	-	22,949	22,949
Changes of assumptions	-	7,637	7,637
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	33,729	-	33,729

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

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.

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

2. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Government Employees' Retirement System (Death Benefit Plan), a multi-employer, State-administered, cost sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits, Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employees death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan.

The Town has no liability beyond the payment of the contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

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

Contributions to pension plan in current fiscal year	\$	103,867
Differences between expected and actual experience		118,015
Changes of assumptions		103,162
Net difference between projected and actual		13,695
Total	\$	338,739

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

3. Deferred Outflows and Inflows of Resources (continued)

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

	Statement of Net Position	General Fund Balance Sheet
Taxes Receivable, less penalties (General Fund)	\$ -	\$ 23,455
Changes in assumptions	7,637	-
Differences between expected and actual experience	22,949	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	33,729	-
Total	\$ 64,315	\$ 23,455

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels.

Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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 Director is individually bonded for \$60,000. The remaining employees that have access to cash are covered under a blanket insurance policy for \$50,000.

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

The Town does not carry flood insurance, as the Town does not feel that, based on the location of their assets, the added cost of flood insurance is justifiable.

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

5. Claims, Judgments and Contingent Liabilities

At June 30, 2020, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorneys, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Long-Term Obligations

a. Capital Lease

The City has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

The agreement was executed on December 9, 2019 to lease police vehicles and yearly payments of \$89,962. Title passes to the Town at the end of the lease term.

The following is an analysis of the assets recorded under capital lease at June 30, 2020:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Vehicles	\$ 360,557	\$ 90,139	\$ 270,418
Total	\$ 360,557	\$ 90,139	\$ 270,418

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2020 were as follows:

Year Ending June 30	
2021	\$ 89,962
2022	89,962
2023	89,962
Total minimum lease payments	269,886
Less: amount representing interest	30,964
Present value of minimum lease payment	\$ 238,922

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

b. Installment Purchase (continued)

a. Installment Purchase

The Town has entered an direct placement installment purchase contract to finance a building and land for a Town hall. The Town also entered into an installment purchase contract to finance the purchase of a fire truck and an additional contract to finance a crash truck. The terms of these installment purchases are as follows:

Governmental Activities:

USDA installment purchase originally issued on January 2, 2002 for \$630,000 due in annual payments of \$35,469 including interest at 4.75%	\$ 474,681
USDA installment purchase originally issued on May 2, 2007 for \$350,000 due in annual payments of \$26,040 including interest at 4.125%	155,562
Installment purchase originally issued on March 25, 2015 for \$30,000 due in annual payments of \$4,725 including interest at 2.50%	9,107
Installment purchase originally issued on March 25, 2015 for \$360,000 due in annual payments of \$27,000 with 0% interest	324,000
Installment purchase originally issued on May 1, 2020 for \$39,251 due in annual payments of \$13,699 with 2.3% interest	<u>39,251</u>
Total installment purchases	1,002,600
Less current portion	<u>85,838</u>
Total governmental long term portion	<u><u>\$ 916,762</u></u>

Annual debt service payments of the installment purchases as of June 30, 2020, including \$326,119 of interest, are as follows:

Years Ending <u>June 30:</u>	Governmental Activities	
	Installment Purchases	
	Principal	Interest
2021	\$ 85,838	\$ 30,095
2022	87,667	28,266
2023	84,819	26,363
2024	73,005	24,504
2025	74,624	22,885
2026-2030	282,610	90,815
2031-2035	112,998	64,347
2036-2040	142,509	34,836
2041-2042	58,530	4,008
	<u>\$1,002,600</u>	<u>\$ 326,119</u>

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

b. Installment Purchase (continued)

c. Notes Payable

Notes payable included in the accompanying financial statements were used to finance sewer improvements. The Town's notes payable are comprised of the following:

Business-type Activities:

Note payable originally issued on October 14, 2016 for \$73,218 due in annual payments of \$19,100 including interest at 1.7%	\$ 18,797
Installment purchase originally issued on May 1, 2020 for \$39,251 due in annual payments of \$13,699 with 2.3% interest	39,352
	39,352
Total Notes Payable	58,149
Less current portion	31,593
Total business-type long term portion	\$ 26,556

Revenue Bond

USDA revenue bond originally issued on November 18, 2014 for \$1,056,000 due in varying annual payments including interest at 2.75%	\$ 960,000
Sewer system upgrade bond anticipation note (USDA) for \$523,000; still in progress annual payments of \$19,100 including interest at 2.25%	500,000
Water treatment plant and system bond anticipation note (USDA) for \$1,766,000 still in progress with interest at 2.25%	1,676,000
	1,676,000
Total Notes Payable	3,136,000
Less current portion	56,000
Total Revenue Bonds	\$ 3,080,000

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

c. Notes Payable (continued)

Annual debt service requirements to maturity for notes payable are as follows:

Years Ending <u>June 30:</u>	<u>Notes Payable</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 31,593	\$ 1,806
2022	13,191	608
2023	13,365	307
Total	<u>\$ 58,149</u>	<u>\$ 2,721</u>

d. Revenue Bonds

A revenue bond was issued to cover costs of improvements to the water and sewer fund.

USDA revenue bond originally issued on November 18, 2014 for \$1,056,000 due in varying annual payments including interest at 2.75%	\$ 960,000
Sewer system upgrade bond anticipation note (USDA) for \$523,000; still in progress annual payments of \$19,100 including interest at 2.25%	500,000
Water treatment plant and system bond anticipation note (USDA) for \$1,766,000 still in progress with interest at 2.25%	<u>1,676,000</u>
Total Notes Payable	3,136,000
Less current portion	<u>56,000</u>
Total Revenue Bonds	<u><u>\$ 3,080,000</u></u>

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

d. Revenue Bonds (continued)

Future payments of the revenue bond are as follows:

Years Ending <u>June 30:</u>	<u>Business-type Activities</u>	
	Revenue Bonds	
	Principal	Interest
2021	\$ 56,000	\$ 75,360
2022	58,000	74,015
2023	59,000	72,620
2024	61,000	71,203
2025	62,000	69,737
2026-2030	334,001	325,520
2031-2035	363,000	283,277
2036-2040	420,000	235,810
2041-2045	473,000	182,632
2046-2050	531,000	122,680
2051-2055	564,000	55,274
2056-2060	153,999	42,035
	\$3,135,000	\$1,610,163

The Town is not in compliance with the covenants as to rates and charges in Section 5.01 of the Bond Order, authorizing the issuance of the Water and Sewer, Series 2014, USDA Revenue Bonds. Section 5.01 of the Bond Order requires the debt service coverage ratio to be no less than 110% and 100% of the subordinated debt service requirement for the fiscal year. The debt service coverage ratio calculation for the year ended June 30, 2020, is as follows:

Revenue bond	
Operating revenues	\$ 1,545,496
Operating expenses*	1,383,980
Operating income	161,516
Nonoperating revenues (expenses)**	(12,873)
Income available for debt service	\$ 148,643

Net revenues must be no less than 110% for current year debt service requirement:

Debt service, principal and interest paid (revenue bond only)	43,868
Debt service ratio	339%

Net revenues must be no less than 110% of the amount necessary to pay annual debt service obligation on subordinated indebtedness

Debt service on subordinated indebtedness	None
Debt service on subordinated indebtedness percent coverage	-

* Per rate covenants, this does not include the depreciation expense of \$312,273.

** Per rate covenants, this does not include the revenue bond interest paid of \$26,868.

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

6. Long-Term Obligations (continued)

d. Revenue Bonds (continued)

The Town has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$1,010,000 in water and sewer system revenue bonds issued in November 2014. Proceeds from the bonds provided financing for the sewer improvements. The bonds are payable solely from water and sewer customer net revenues and are payable through 2054. Annual principal and interest payments on the bonds are expected to require less than 6% of net revenues. The total principal and interest remaining to be paid on the bonds is \$977,000. Principal and interest paid for the current year and total customer net revenues were \$16,000 and \$27,335, respectively.

e. Changes in Long-Term Liabilities

The following is a summary of changes in the Town's long-term obligations as of June 30, 2020.

	Beginning			Ending	
	Balances	Increases	Decreases	Balances	Current Portion
Governmental activities:					
Direct placement installment purchases	\$ 1,034,918	\$ 39,251	\$ 71,569	\$ 1,002,600	\$ 85,838
Capital lease obligations	-	328,884	89,962	238,922	74,791
Compensated absences	67,689	22,072	7,286	82,475	17,000
Net pension obligation (LGERS)	462,540	50,035	-	512,575	-
Total pension obligation (LEO)	143,014	38,198	-	181,212	-
Governmental activity long-term liabilities	<u>\$ 1,708,161</u>	<u>\$ 478,440</u>	<u>\$ 168,817</u>	<u>\$ 2,017,784</u>	<u>\$ 177,629</u>
Business-type activities:					
Direct placement notes payable	\$ 110,386	\$ 39,251	\$ 91,488	\$ 58,149	\$ 31,593
Revenue bonds	3,191,000	-	56,000	3,135,000	56,000
Compensated absences	5,721	3,500	1,507	7,714	1,000
Net pension obligation (LGERS)	43,955	4,948	-	48,903	-
Business-type activity long-term liabilities	<u>\$ 3,351,062</u>	<u>\$ 47,699</u>	<u>\$ 148,995</u>	<u>\$ 3,249,766</u>	<u>\$ 88,593</u>

The General Fund provides the resources for the retirement of compensated absences payable. The Town's legal debt limit is 8.0% of the Town's assessed value of taxable property. The Town's legal debt margin as of June 30, 2020, amounts to approximately \$51,600,065.

Town of Carthage, North Carolina
Notes to the Financial Statements (continued)
June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

C - Interfund Balances and Activity

Transfers to/from other funds at June 30, 2020, consist of the following:

From the Water Capital Improvement Fund to Water Fund	\$ 94,311
From the Sewer Capital Improvement Fund to Sewer Fund	51,585
From the Perpetual Care Fund to the General Fund	230
Total	\$ 146,126

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

D - Fund Balance

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

<i>Total fund balance - General Fund</i>	\$ 1,654,476
Less:	
Stabilization by State Statute	255,648
Streets	142,088
Police-Drug Crime Prevention	200
Debt Service	160,629
Remaining fund balance	1,095,911

There were no outstanding encumbrances at June 30, 2020.

NOTE 4 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

NOTE 5 - SUBSEQUENT EVENTS

Subsequent events were evaluated through September 15, 2020, which is the date the financial statements were available to be issued.

Required Supplementary Financial Data

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

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Carthage's proportionate share of the net pension liability (%)	0.0206%	0.0214%	0.0203%	0.0181%	0.0195%	0.0197%	0.0144%
Carthage's proportionate share of the net pension liability (\$)	\$ 561,478	\$ 506,495	\$ 309,976	\$ 383,506	\$ 87,290	\$ (116,063)	\$ 173,575
Carthage's covered payroll	\$ 1,163,561	\$ 1,106,638	\$ 1,038,771	\$ 1,082,652	\$ 843,993	\$ 889,102	\$ 778,704
Carthage's proportionate share of the net pension liability as a percentage of its covered-employee payroll	48.26%	45.77%	29.84%	35.42%	10.34%	-13.05%	22.29%
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	94.18%	91.47%	98.09%	99.07%	102.64%	94.35%

* The amounts presented are for the prior fiscal year.

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

Town of Carthage, North Carolina
Town of Carthage's Contributions
Required Supplementary Information
Last Seven Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 103,867	\$ 89,340	\$ 82,829	\$ 75,186	\$ 70,675	\$ 60,727	\$ 63,595
Contributions in relation to the contractually required contribution	<u>103,867</u>	<u>89,340</u>	<u>82,829</u>	<u>75,186</u>	<u>70,675</u>	<u>60,727</u>	<u>63,595</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Carthage's covered-employee payroll	\$ 1,163,561	\$ 1,106,638	\$ 1,106,638	\$ 1,038,771	\$ 1,082,652	\$ 843,993	\$ 889,102
Contributions as a percentage of covered-employee payroll	8.93%	8.07%	7.48%	7.24%	6.53%	7.20%	7.14%

Town of Carthage, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officer's Special Separation Allowance
June 30, 2020

	2020		2019		2018		2017
Beginning balance	\$ 143,014	\$	115,244	\$	133,156	\$	123,362
Service Cost	15,472		13,201		8,683		9,920
Interest on the total pension liability	5,206		3,642		5,140		4,401
Changes of benefit terms	-		-		-		-
Differences between expected and actual experience in the measurement of the total pension liability	9,777		18,826		(40,559)		(4,530)
Changes of assumptions or other inputs	7,743		(7,899)		8,824		-
Benefit payments	-		-		-		-
Other changes	-		-		-		-
Ending balance of the total pension liability	<u>\$ 181,212</u>	<u>\$</u>	<u>143,014</u>	<u>\$</u>	<u>115,244</u>	<u>\$</u>	<u>133,153</u>

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

Town of Carthage, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officer's Special Separation Allowance
June 30, 2020

	2020		2019		2018		2017
Total pension liability	\$ 181,202	\$	143,014	\$	115,244	\$	133,156
Covered payroll	512,952		449,838		393,669		435,647
Total pension liability as a percentage of covered payroll	35.33%		31.79%		29.27%		30.57%

Notes to the schedules:

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

Individual Fund Statements and Schedules

Governmental Funds

General Fund – This fund accounts for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in other funds.

Perpetual Care Fund – This fund accounts for perpetual care of the municipal cemetery.

Town of Carthage, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 1,631,298	\$
Penalties and interest		4,809	
Total	<u>1,614,099</u>	<u>1,636,107</u>	<u>22,008</u>
Other taxes and licenses:			
Local option sales taxes		664,392	
Privilege licenses		990	
Motor vehicle licenses		9,780	
Total	<u>640,700</u>	<u>675,162</u>	<u>34,462</u>
Unrestricted intergovernmental:			
Beer and wine tax		10,417	
Utility franchise tax		185,956	
Solid waste		1,820	
Total	<u>200,000</u>	<u>198,193</u>	<u>(1,807)</u>
Restricted intergovernmental:			
Powell bill allocation		77,763	
Fire/safety - Carthage Rescue Squad		1,819	
Federal grant		55,283	
Other grants		27,872	
Total	<u>204,591</u>	<u>162,737</u>	<u>(41,854)</u>
Sales and services:			
Sanitary landfill participation fee		161,475	
Total	<u>153,800</u>	<u>161,475</u>	<u>7,675</u>
Investment earnings	<u>12,700</u>	<u>12,339</u>	<u>(361)</u>
Other revenues:			
Sale of assets		19,043	
Utility leases		38,611	
Zoning fees		7,571	
Miscellaneous		36,950	
Moore County ABC revenue		42,063	
Administrative charge - Fire District		12,000	
Donations		1,175	
Insurance proceeds		48,334	
Rent		7,200	
Total	<u>65,488</u>	<u>212,947</u>	<u>147,459</u>
Total revenues	<u>\$ 2,891,378</u>	<u>\$ 3,058,960</u>	<u>\$ 167,582</u>

Town of Carthage, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits	\$	\$ 8,289	\$
Other operating expenditures		3,306	
Total	<u>14,850</u>	<u>11,595</u>	<u>3,255</u>
Administration:			
Salaries and employee benefits		177,279	
Other operating expenditures		218,527	
Total	<u>405,419</u>	<u>395,806</u>	<u>9,613</u>
Finance:			
Salaries and employee benefits		79,257	
Other operating expenditures		5,317	
Total	<u>85,590</u>	<u>84,574</u>	<u>1,016</u>
Legal services:			
Professional services		67,843	
Total	<u>71,750</u>	<u>67,843</u>	<u>3,907</u>
Planning and zoning:			
Salaries and employee benefits		23,626	
Other operating expenditures		39,910	
Total	<u>97,158</u>	<u>63,536</u>	<u>33,622</u>
Public buildings:			
Other operating expenditures		91,670	
Total	<u>114,036</u>	<u>91,670</u>	<u>22,366</u>
Appearance:			
Other operating expenditures		2,176	
Total	<u>3,632</u>	<u>2,176</u>	<u>1,456</u>
Total general government	<u>\$ 792,435</u>	<u>\$ 717,200</u>	<u>\$ 75,235</u>

Town of Carthage, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public safety:			
Police department:			
Salaries and employee benefits	\$	\$ 777,401	\$
Vehicle maintenance		23,850	
Other operating expenditures		94,492	
Capital outlay		360,557	
Total	<u>1,000,076</u>	<u>1,256,300</u>	<u>(256,224)</u>
Fire:			
Salaries and employee benefits		379,701	
Vehicle maintenance		59,955	
Other operating expenditures		92,398	
Total	<u>520,326</u>	<u>532,054</u>	<u>(11,728)</u>
Total public safety	<u>1,520,402</u>	<u>1,788,354</u>	<u>(267,952)</u>
Streets and sanitation:			
Streets:			
Salaries and employee benefits		172,119	
Vehicle maintenance		5,492	
Street lights		73,972	
Contracted services		13,915	
Other operating expenditures		94,229	
Capital outlay		39,251	
Total	<u>447,946</u>	<u>398,978</u>	<u>48,968</u>
Powell bill:			
Salaries and employee benefits		29,874	
Other operating expenditures		45,725	
Total	<u>93,968</u>	<u>75,599</u>	<u>18,369</u>
Sanitation:			
Contracted services		117,895	
Operating expenditures		360	
Total	<u>118,000</u>	<u>118,255</u>	<u>(255)</u>
Total streets and sanitation	<u>\$ 659,914</u>	<u>\$ 592,832</u>	<u>\$ 67,337</u>

Town of Carthage, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual (continued)
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Cultural and recreational:			
Other operating expenditures	\$	\$ 13,965	\$
Total	<u>25,829</u>	<u>13,965</u>	<u>11,864</u>
Cemeteries:			
Operating expenditures		985	
Total	<u>3,000</u>	<u>985</u>	<u>2,015</u>
Total cultural and recreational	<u>28,829</u>	<u>14,950</u>	<u>13,879</u>
Debt service:			
Principal		161,531	
Interest		30,665	
Total	<u>201,083</u>	<u>192,196</u>	<u>8,887</u>
Total expenditures	<u>3,202,663</u>	<u>3,305,532</u>	<u>(100,599)</u>
Revenues over (under) expenditures	<u>(311,285)</u>	<u>(246,572)</u>	<u>64,713</u>
Other financing sources (uses):			
Transfer from Perpetual Care Fund		230	
Installment purchase proceeds		368,135	
Total other financing sources (uses)	<u>106,522</u>	<u>368,365</u>	<u>261,843</u>
Fund balance appropriated	204,763	-	(204,763)
Net change in fund balance	<u>\$ -</u>	121,793	<u>\$ 121,793</u>
Fund balances, beginning		<u>1,532,683</u>	
Fund balances, ending		<u>\$ 1,654,476</u>	

Town of Carthage, North Carolina
Perpetual Care Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balances-
Budget and Actual
For the Fiscal Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Investment earnings	\$ 230	\$ 413	\$ 183
Total revenues	<u>230</u>	<u>413</u>	<u>183</u>
Expenditures:			
Other operating expenditures	-	-	-
Total expenditures	<u>-</u>	<u>-</u>	<u>-</u>
Other financing sources (uses):			
Transfer to General Fund	(230)	(230)	-
Total other financing sources (uses)	<u>(230)</u>	<u>(230)</u>	<u>-</u>
 Revenues over (under) expenditures	 <u>\$ -</u>	 183	 <u>\$ 183</u>
 Fund balance, beginning		 26,417	
Fund balance, ending		<u>\$ 26,600</u>	

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

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

Water Capital Reserve Fund - This fund is used to account for future water fund capital expenditures.

Water Capital Improvement Project Fund - This fund is used to account for the construction and capital addition of the water capital improvement project.

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

Sewer Capital Improvement Project Fund - This fund is used to account for the construction and capital addition of the sewer capital improvement project.

Town of Carthage, North Carolina
Water Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Operating revenues:			
Charges for services	\$	\$ 831,324	\$
Tap fees		18,543	
Total	<u>828,500</u>	<u>849,867</u>	<u>21,367</u>
Non-operating revenues:			
Interest income		4,211	
Insurance proceeds		15,060	
Total	<u>21,655</u>	<u>19,271</u>	<u>(2,384)</u>
Total revenues	<u>850,155</u>	<u>869,138</u>	<u>18,983</u>
Expenditures:			
Operating expenditures:			
Water salaries and benefits		95,152	
Water operations		700,528	
Total	<u>886,950</u>	<u>795,680</u>	<u>91,270</u>
Debt service:			
Principal payments		38,250	
Interest		34,232	
Total	<u>72,670</u>	<u>72,482</u>	<u>188</u>
Total expenditures	<u>959,620</u>	<u>868,162</u>	<u>91,458</u>
Revenues over (under) expenditures	<u>(109,465)</u>	<u>976</u>	<u>110,441</u>
Other financing sources (uses):			
Transfer from Water Capital Improvement Project		94,311	
Total	<u>\$ -</u>	<u>\$ 94,311</u>	<u>\$ 94,311</u>
Appropriated fund balance	109,465	-	(109,465)
Revenues, other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 95,287</u>	<u>\$ 95,287</u>

Town of Carthage, North Carolina
Water Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP) (continued)
For the Year Ended June 30, 2020

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

Revenues, other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 95,287</u>	<u>\$ 95,287</u>
---	-------------	------------------	------------------

Reconciling items:

Depreciation		(186,475)	
Transfer from Water Capital Improvement Project		(94,311)	
Principal payments		38,250	
Increase in accrued compensated absences		(796)	
Decrease in outflows of resources-pensions		3,626	
Increase in net pension liability		3,016	
Increase in inflows of resources-pensions		<u>(581)</u>	
Total reconciling items		<u>(237,271)</u>	
 Change in net position		 <u>\$ (141,984)</u>	

Town of Carthage, North Carolina
Capital Reserve Fund
Schedule of Revenues and Expenditures -
Budget and Actual
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Transfer to Water Fund	\$ -	\$ -	\$ -
Transfer to Sewer Fund	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

Town of Carthage, North Carolina
Water Capital Improvements Project Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non - GAAP)
From Inception and for the Year Ended June 30, 2020

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues:					
Restricted intergovernmental:					
USDA grant	\$ 2,234,000	\$ 2,234,046	\$ -	\$ 2,234,046	\$ 46
USDA loan	1,766,000	1,766,000	-	1,766,000	-
Investment earnings	-	158	-	158	158
Total revenues	<u>4,000,000</u>	<u>4,000,204</u>	<u>-</u>	<u>4,000,204</u>	<u>204</u>
Expenditures:					
Engineering	422,300	373,686	-	373,686	48,614
Development	3,265,000	3,234,147	-	3,234,147	30,853
Other	141,227	126,587	-	126,587	14,640
Total expenditures	<u>3,828,527</u>	<u>3,734,420</u>	<u>-</u>	<u>3,734,420</u>	<u>94,107</u>
Revenues over (under) expenditures	<u>171,473</u>	<u>265,784</u>	<u>-</u>	<u>265,784</u>	<u>94,311</u>
Other financing sources (uses):					
Transfer to Water fund	(171,473)	(171,473)	(94,311)	(265,784)	(94,311)
Total other financing sources (uses)	<u>(171,473)</u>	<u>(171,473)</u>	<u>(94,311)</u>	<u>(265,784)</u>	<u>(94,311)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 94,311</u>	<u>(94,311)</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>94,311</u>		
Fund balance, ending			<u>\$ -</u>		

Town of Carthage, North Carolina
Sewer Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Charges for services:			
Sewer charges	\$	\$ 673,033	\$
Impact fees		22,596	
Total operating revenues	<u>628,500</u>	<u>695,629</u>	<u>67,129</u>
Non-operating revenues:			
Interest income		2,405	
Total non-operating revenues	<u>3,500</u>	<u>2,405</u>	<u>(1,095)</u>
Total revenues	<u>632,000</u>	<u>698,034</u>	<u>66,034</u>
Expenditures:			
Sewer operations:			
Salaries and employee benefits		58,884	
Sewer operations		540,333	
Total	<u>647,706</u>	<u>599,217</u>	<u>48,489</u>
Debt service:			
Principal payments		70,046	
Interest		41,940	
Total	<u>112,115</u>	<u>111,986</u>	<u>129</u>
Capital Outlay:			
Capital Outlay		39,251	
Total	<u>39,252</u>	<u>39,251</u>	<u>1</u>
Total expenditures	<u>799,073</u>	<u>750,454</u>	<u>48,618</u>
Revenues over (under) expenditures	<u>(167,073)</u>	<u>(52,420)</u>	<u>114,653</u>
Other financing sources (uses):			
Transfer from Capital Project		51,585	
Loan proceeds		39,251	
Total other financing sources (uses)	<u>39,252</u>	<u>90,836</u>	<u>51,584</u>
Appropriated fund balance	127,821	-	(127,821)
Revenues, other financing sources (uses) over (under) expenditures	<u>\$ -</u>	<u>\$ 38,416</u>	<u>\$ 38,416</u>

Town of Carthage, North Carolina
Sewer Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non - GAAP) (continued)
For the Year Ended June 30, 2020

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

Revenues and other financing sources	
(uses) over (under) expenditures	<u>\$ 38,416</u>

Reconciling items:

Depreciation	(118,849)
Principal retirement	70,046
Loan proceeds	(39,251)
Capital outlay	39,251
Transfer from Capital Project	(51,585)
Decrease in accrued compensated absences	2,324
Increase in deferred outflows of resources-pensions	(5,181)
Increase in net pension liability	1,933
Increase in deferred inflows of resources-pensions	<u>(373)</u>
Total reconciling items	<u>(101,685)</u>
Change in net position	<u><u>\$ (63,269)</u></u>

Town of Carthage, North Carolina
Sewer Capital Improvement Project Fund
Schedule of Revenues and Expenditures -
Budget and Actual (Non – GAAP)
From Inception and for the Year Ended June 30, 2020

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Restricted intergovernmental:					
USDA grant	\$ 221,000	\$ 220,569	\$ -	\$ 220,569	\$ (431)
USDA loan	523,000	523,000	-	523,000	-
Investment earnings	-	47	-	47	47
Total revenues	744,000	743,616	-	743,616	(384)
Expenditures:					
Engineering	90,000	122,045	-	122,045	(32,045)
Development	623,685	578,133	-	578,133	45,552
Other	8,000	21,123	-	21,123	(13,123)
Total expenditures	721,685	721,301	-	721,301	384
Revenues over (under) expenditures	22,315	22,315	-	22,315	22,315
Other financing sources (uses):					
Transfer to Water and Sewer fund	(22,315)	29,270	(51,585)	(22,315)	-
Total other financing sources (uses)	(22,315)	29,270	(51,585)	(22,315)	-
Revenues and other sources over (under) expenditures	\$ -	\$ 51,585	(51,585)	\$ -	\$ -
Fund balance, beginning			51,585		
Fund balance, ending			\$ -		

Other Schedules

This section contains additional information on property taxes.

- Schedule of Ad Valorem Taxes Receivable
- Analysis of Current Tax Levy

Town of Carthage, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2020

<u>Fiscal Year</u>	<u>Uncollected Balances June 30, 2019</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balances June 30, 2020</u>
2019-2020	\$ -	\$ 1,597,906	\$ 1,584,568	\$ 13,338
2018-2019	6,009	-	1,757	4,252
2017-2018	3,234	-	1,204	2,030
2016-2017	1,847	-	1,242	605
2015-2016	796	-	79	717
2014-2015	390	-	10	380
2013-2014	468	-	(8)	476
2012-2013	311	-	(7)	318
2011-2012	110	-	4	106
2010-2011	176	-	(56)	232
2009-2010	436	-	436	-
	<u>\$ 13,777</u>	<u>\$ 1,597,906</u>	<u>\$ 1,589,229</u>	<u>22,454</u>

Less: allowance for uncollectible accounts - General Fund

-

Ad valorem taxes receivable - net

\$ 23,455

Reconciliation with revenues:

Ad valorem taxes - General Fund

\$ 1,636,107

Penalties collected on ad valorem taxes

-

Reconciling items:

Interest and lien advertising collected

4,809

Taxes written off

(51,687)

Total collections and credits

\$ 1,589,229

Town of Carthage, North Carolina
Analysis of Current Year Tax Levy
For the Year Ended June 30, 2020

	Town-Wide Levy		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
	Original levy:				
Property Tax	\$ 253,073,131	0.50	\$ 1,252,712	\$ 1,155,011	\$ 97,701
Fire tax	394,913,333	0.09	355,422	310,682	44,740
Total	<u>647,986,465</u>		<u>1,608,134</u>	<u>1,465,693</u>	<u>142,441</u>
Discoveries:					
Current Year	<u>810,323</u>	0.16	<u>1,256</u>	<u>1,256</u>	<u>-</u>
Total	<u>810,323</u>		<u>1,256</u>	<u>1,256</u>	<u>-</u>
Discoveries:					
Current Year	<u>(7,409,032)</u>	0.16	<u>(11,484)</u>	<u>(11,484)</u>	<u>-</u>
Total	<u>(7,409,032)</u>		<u>(11,484)</u>	<u>(11,484)</u>	<u>-</u>
Total property valuation	<u><u>\$ 641,387,756</u></u>				
Net levy			1,597,906	1,455,465	142,441
Uncollected taxes at June 30, 2020			<u>13,338</u>	<u>13,338</u>	<u>-</u>
Current year's taxes collected			<u><u>\$ 1,584,568</u></u>	<u><u>\$ 1,442,127</u></u>	<u><u>\$ 142,441</u></u>
Current levy collection percentage			<u><u>99.17%</u></u>	<u><u>99.08%</u></u>	<u><u>100.00%</u></u>

Compliance Section



S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS
American Institute of CPAs
N. C. Association of CPAs

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

To the Honorable Mayor and
Members of the Board of commissioners
Carthage, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Carthage, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Carthage's basic financial statements and have issued our report thereon dated September 15, 2020.

Internal Control over Financial Reporting

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

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

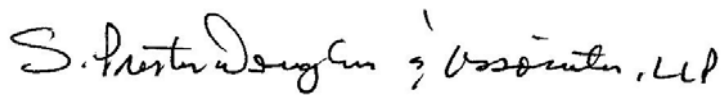
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be significant deficiencies. 2020-001 and 2020-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Carthage's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.

A handwritten signature in black ink that reads "S. Prater Douglas, CPA". The signature is written in a cursive style.

Lumberton, North Carolina
September 15, 2020

Town of Carthage, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2020

Section I. Summary of Auditor's Results
--

Financial Statements

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

Town of Carthage, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2020

Section II. Financial Statement Findings

SIGNIFICANT DEFICIENCY

Finding 2020 - 001 Segregation of Duties

Criteria: Segregation of duties provide checks and balances to reduce possibilities for misstatements resulting from errors in judgements, dishonesty, personal carelessness, distraction, and fatigue.

Condition: The Town has a limited number of personnel for accounting functions which creates inherent limitations on the effectiveness of certain controls due to the lack of segregation of duties among the Town's personnel.

Effect: Potential misstatement of financial statements

Cause: The Town has a limited number of personnel for accounting functions which creates inherent limitations on the effectiveness of certain controls due to the lack of segregation of duties among the Town's personnel.

Recommendation: The board should continually keep in mind that internal controls are limited due to the size of the Town's staff.

Views of responsible officials and planned corrective actions: The Town agrees with the finding.

SIGNIFICANT DEFICIENCY

Finding: 2020 – 002 Excess Expenditures over Appropriations

Excess of Expenditures over Appropriation

Criteria: N.C. General Statute 159-8(a) states that all moneys received and expended by a local government should be included in the budget ordinance.

Condition: The Town expended more than appropriated in the annual budget ordinance in the General Fund. The amount of expenditure's that exceeded appropriation are presented in Note 2.

Effect: Expenditures were incurred that had not been budgeted.

Cause: The Town did not monitor budget reports frequent enough at year end to ensure budgetary compliance

Recommendation: Management should closely monitor the budget versus actual statements to ensure actual expenditures are within budgetary constraints.

View of responsible officials and planned corrective actions: The Town agrees with this finding.

Town of Carthage

Town Manager
Thomas Robinson

Town Clerk
Dorothy Dutton

Finance Officer
Kesha Matthews

Director of Public Works
Allen Smith



Mayor
Vacant

Commissioners
Milton "T" Dowdy, Jr.
Mayor Pro-Tem

George Wilson, Jr.

Christopher Nance

Marc Phillips

Jimmy Chalflinch

Correction Action Plan

SIGNIFICANT DEFICIENCY

Finding 2020 - 001 Segregation of Duties

Name of contact person: Kesha Matthews, Finance Director

Corrective Action: The board should continually keep in mind that due to the small staff size, internal controls will be limited, and should monitor accordingly.

Proposed Completion Date: The Town has implemented the above procedures.

SIGNIFICANT DEFICIENCY

Finding: 2020 – 002 Excess Expenditures over Appropriations

Name of Contact Person: Kesha Mathews, Finance Officer

Corrective Action: The Finance Officer did not record the amount of the loan for the fleet of Police vehicles because the Town did not physically receive the money. Ford Motor Credit sent the money directly to the Ford dealership where the Town purchased the vehicles. The Finance Officer did not think the Town had to record the transaction because the Town never had possession of the funds. In the future, when unusual situations arise, the Finance Officer will consult with auditors on whether or not and how related transactions should be recorded.

Proposed Completion Date: The Town will implement the above procedures immediately.

Town of Carthage, North Carolina
Summary Schedule of Prior Audit Findings
For the Year Ended June 30, 2020

Finding:	2019-001
Status:	The finding has not been corrected. Similar comment in current year, see Finding 2020-001.
Finding:	2018-001
Status:	The finding has not been corrected. Similar comment in current year, see Finding 2020-001.
Finding:	2017-001
Status:	The finding has not been corrected. Similar comment in current year, see Finding 2020-001.
Finding:	2016-001
Status:	The finding has not been corrected. Similar comment in current year, see Finding 2020-001.