
Town of Hobgood

Hobgood, North Carolina

Audit Report

June 30, 2020

TOWN OF HOBGOOD

HOBGOOD, NORTH CAROLINA

TOWN OFFICIALS

Mayor

Dannie Flanary

Town Commissioners

Robert Sykes, Jr.

Milton Armston

Sam Johnson

Julian Padgett

Sallie Smith

Finance Officer

Joan Sykes

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Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Council
Town of Hobgood, 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 Hobgood, 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 Hobgood'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 the audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Member:

American Institute of Certified Public Accountants, NC Association of Certified Public Accountants
AICPA – Governmental Audit Quality Center

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Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Hobgood, 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 of the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 12 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability Asset and Contributions on pages 43 and 44, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards general 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 Hobgood, North Carolina. The combining and individual fund statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or the basic financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of

America. In our opinion, the combining and 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.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Larry E. Carpenter, CPA, PA

Greenville, NC
Decemeber 3, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Town of Hobgood, we offer readers of the Town of Hobgood's financial statements this narrative overview and analysis of the financial activities of the Town of Hobgood for the fiscal year ended 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

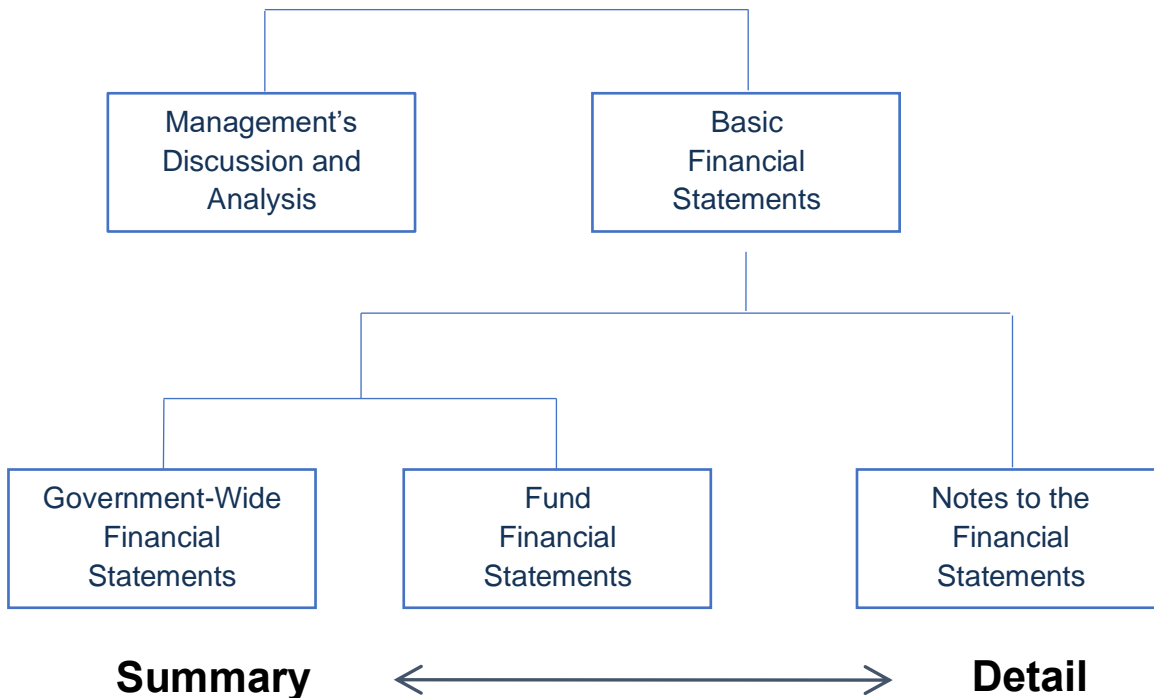
- The assets and deferred outflows of resources of the Town of Hobgood exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$4,704,652 (net position).
- The government's total net position decreased by \$185,114 primarily due to decreases in the governmental activities net position.
- As of the close of the current fiscal year, the Town of Hobgood's governmental funds reported combined ending fund balances of \$347,952 with a net increase of \$32,347 in fund balance. Approximately 77.43% of this total amount, or \$269,427, is unrestricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$269,427, or 191.08% of total general fund expenditures for the fiscal year.
- At the end of the current fiscal year, the Town had Restricted Reserves of \$64,402.

Overview of the Financial Statements

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

Components of the Annual Financial Report

Figure 1:



Basic Financial Statements

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

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

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

Government-wide financial statements

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

The two government-wide statements report the Town's net position and how it has 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 public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer electric services offered by the Town of Hobgood.

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

Fund financial statements

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

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

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

document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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

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

The Town of Hobgood's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 370,143	\$ 336,634	\$ 727,334	\$ 744,807	\$ 1,097,477	\$ 1,081,441
Capital assets	1,268,188	1,326,328	2,446,567	2,601,254	3,714,755	3,927,582
Deferred outflows of resources	42,734	42,874	22,485	22,795	65,219	65,669
Total assets and deferred outflows of resources	1,681,065	1,705,836	3,196,386	3,368,856	4,877,451	5,074,692
Current liabilities	7,517	6,439	124,398	107,633	131,915	114,072
Noncurrent liabilities	15,069	11,693	33,541	26,027	48,610	37,720
Deferred inflows of resources	535	1,439	1,190	3,205	1,725	4,644
Total liabilities and deferred inflow of resources	23,121	19,571	159,129	136,865	182,250	156,436
Net investment in capital assets	1,239,698	1,295,976	2,482,567	2,601,254	3,722,265	3,897,230
Restricted	78,525	82,154	-	-	78,525	82,154
Unrestricted	313,172	279,645	590,690	630,737	903,862	910,382
Total net position	\$ 1,631,395	\$ 1,657,775	\$ 3,073,257	\$ 3,231,991	\$ 4,704,652	\$ 4,889,766

Management's Discussion and Analysis
Town of Hobgood

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Hobgood exceeded liabilities and deferred inflows by \$4,704,652 as of June 30, 2020. The Town's net position decreased by \$185,114 for the fiscal year ended June 30, 2020. However, the largest portion \$3,722,265 or 79.12% reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Hobgood uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Hobgood's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Hobgood's net position \$78,525 (0.05%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$903,862 (34.65%) is unrestricted.

The decrease in net position is due to the lack of operating grants and contributions for governmental activities as well as a decrease in capital grants and contributions for business type activities.

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

Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 89.65%. The Town of Hobgood contracts with Halifax County to collect their taxes. Halifax County has a tax collection rate of 97.39% which is comparable to the statewide collection rate of 98.87%. The disparity between the County's collection rate and The Town's rate may stem from the fact that Hobgood is one of the most economically distressed locations in Halifax County and there are many absentee property owners.

Town of Hobgood's Changes in Net Position

Figure 3

Town of Hobgood's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 35,515	\$ 38,617	\$ 585,739	\$ 608,710	\$ 621,254	\$ 647,327
Operating grants and contributions	14,215	14,426	-	-	14,215	14,426
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	62,941	63,157			62,941	63,157
Other taxes	43,065	42,513			43,065	42,513
Unrestricted intergovernmental	-	-			-	-
Investment earnings	-	-			-	-
Other	17,635	12,785	24,764	410	42,399	13,195
Total revenues	<u>173,371</u>	<u>171,498</u>	<u>610,503</u>	<u>609,120</u>	<u>783,874</u>	<u>780,618</u>
Expenses:						
General government	147,123	138,754			147,123	138,754
Public safety	14,895	8,705			14,895	8,705
Transportation	15,628	14,077			15,628	14,077
Economic and physical development	-	-			-	-
Environmental protection	20,819	19,959			20,819	19,959
Culture and recreation	-	-			-	-
Interest on long-term debt	1,286	1,362			1,286	1,362
Water and sewer			309,800	290,871	309,800	290,871
Electric			459,437	451,166	459,437	
Total expenses	<u>199,751</u>	<u>182,857</u>	<u>769,237</u>	<u>742,037</u>	<u>968,988</u>	<u>473,728</u>
Increase in Net Position before transfers	(26,380)	(11,359)	(158,734)	(132,917)	(185,114)	(144,276)
Transfers	-	-	-	-	-	-
Increase (decrease) in Net Position	<u>(26,380)</u>	<u>(11,359)</u>	<u>(158,734)</u>	<u>(132,917)</u>	<u>(185,114)</u>	<u>(144,276)</u>
Net Position, July 1	<u>1,657,775</u>	<u>1,755,999</u>	<u>3,231,991</u>	<u>3,364,908</u>	<u>4,889,766</u>	<u>5,120,907</u>
Net Position, June 30	<u>\$ 1,631,395</u>	<u>\$ 1,744,640</u>	<u>\$3,073,257</u>	<u>\$3,231,991</u>	<u>\$ 4,704,652</u>	<u>\$ 4,976,631</u>

Governmental activities: Governmental activities decreased the Town's net position by \$26,380, thereby accounting for 1.01% of the total decline in the net assets of the Town of Hobgood. Key elements of this decrease are as follows:

Business-type activities: Business-type activities decreased the Town of Hobgood's net position by \$158,734, accounting for 6.02% of the total decrease in the government's net position. Key elements of this increase are as follows:

- The Water and Sewer fund and the Electric fund collectively had a \$158,734 decrease in net position. However, the Water and Sewer Fund showed a decrease in net position of \$147,508 while the Electric Fund showed an decrease in net position of \$11,226.
- The Water and Sewer Fund showed an operating loss of \$147,708 before contributions and transfers. The sewer rates for the Town of Hobgood ranks in the highest ten percent of all sewer utility rates in NC. The water rates for the town ranks in the middle fifty percent of all water utility rates in NC. The rates in Hobgood which is a Tier 1 County are already extremely high and cannot reflect the revenue needed to offset the depreciation of grants received. The Town of Hobgood is in a precarious situation in that it needs grants to improve its water/sewer infrastructure, yet the depreciation generated shows a deficiency in our rate structure.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Hobgood. At the end of the current fiscal year, the Town of Hobgood's fund balance available in the General Fund was \$269,427 while total fund balance reached \$347,952. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and the total fund balance to total fund expenditures. Unassigned fund balance represents 159.13% of total General Fund expenditures.

As of June 30, 2020, the governmental funds of the Town of Hobgood reported a combined fund balance of \$347,952 with a net increase of \$32,347 over last year. Included in this change in fund balance are a substantial increase in Ad Valorem taxes and moderate decreases in sanitation and street expenditures.

General Fund Budgetary Highlights

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

Small adjustments were made to the budget to account for more exact information being available after the original budget was adopted.

Proprietary Funds: The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$258,783 and those for the Electric Fund amounted to \$331,907. The decrease in net position for the Water and Sewer Fund was \$147,508 and the decrease in net position for the Electric Fund was \$11,226. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Hobgood's investment in capital assets for its governmental and business—type activities as of June 30, 2020, totaled \$3,750,755 (net of accumulated depreciation). These assets include buildings, land, machinery, wastewater treatment, equipment, and vehicles.

Major capital asset transactions during the year include no significant demolitions or disposals.

Town of Hobgood's
(Net of Accumulated Depreciation)
Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 42,500	\$ 42,500	\$ 40,050	\$ 40,050	\$ 82,550	\$ 82,550
Buildings and Improvements	1,964,942	1,964,942			1,964,942	1,964,942
Distribution System	-	-	3,917,426	3,917,426	3,917,426	3,917,426
Waste Water Treatment	-	-	1,065,081	1,065,081	1,065,081	1,065,081
Equipment and Vehicles	148,898	148,898	402,671	374,671	551,569	523,569
Subtotal	2,156,340	2,156,340	5,425,228	5,397,227.85	7,581,568	7,553,568
Accumulated depreciation	(888,151)	(714,040)	(2,942,662)	(2,513,844)	(3,830,813)	(3,227,884)
Capital assets, net	\$1,268,188	\$1,442,300	\$ 2,482,566	\$ 2,883,384	\$3,750,755	\$4,325,684

Additional information on the Town's capital assets can be found in note III-3 of the Basic Financial Statements.

Debt - The Town's debt is as follows:

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Installment Obligations	\$ 28,490	\$ 30,352	\$ -	\$ -	\$ 28,490	\$ 30,352
Pension Related Debt	15,069	11,693	33,541	26,027	48,610	37,720
Total	\$ 43,559	\$ 42,045	\$ 33,541	\$ 26,027	\$ 77,100	\$ 68,072

Economic Factors and Next Year's Budget and Rates

The following key economic indicators reflect the general condition of the Town. The economic crisis of prior years continues to contribute to the factors below:

- High unemployment, an aged population, no industrial development, and very little retail business help to create a situation where the Town's customer base is eroded. The resulting ratio of expense versus

revenue creates a difficult situation in keeping rates and fees low while maintaining an adequate level of service. In addition, most residents are on fixed income.

- The median household income based on the 2010 Census for the Town is \$ 26,500 whereas Halifax County is \$32,549. The national median household income is \$ 59,039. Hobgood's median income is only 55 % of the U.S. medial.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Tax revenues along with other general fund revenues are expected to remain constant and no property tax rate increase is being considered at this time. Electric revenues and expenditures are expected to remain constant so no increase or decrease in rate is being considered at this time.

Governmental Activities: Property taxes will remain constant in revenues and permits and fees are expected to be very modest. The Town will use these revenues to cover costs of expenses in material, supplies, and labor. These revenues will also be used to finance programs currently in place.

Budgeted revenues in the General Fund are expected to increase by 8% to \$168,775 This increase is due to a varying increase and decrease in sanitation charges, county sales tax refund, and miscellaneous revenue. Budgeted expenditures are expected to remain constant with prior year spending.

Sanitation fees will remain constant at \$16.00 per month per household.

Budgeted revenues in the Street Fund are expected to remain constant at \$18,175.

Business — type Activities: The Electric Fund budget will remain constant at \$485,000

The Water/Sewer Fund budget will remain constant at \$200,000. The monthly in town base charge will remain the same as the previous year.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the:

**Town Administrator
P.O. Box 217
Hobgood, NC 27843**

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENT

Town of Hobgood, North Carolina
Statement of Net Position
June 30, 2020

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
<i>Current Assets</i>			
Cash and cash equivalents	\$ 273,917	\$ 617,035	\$ 890,952
Taxes receivable, net	17,701	--	17,701
Accounts receivable, net	11,315	51,154	62,469
Due from other governments	2,808	--	2,808
Restricted cash and cash equivalents	64,402	59,145	123,547
Total Current Assets	370,143	727,334	1,097,477
<i>Noncurrent Assets</i>			
Land and other nondepreciable assets	42,500	40,050	82,550
Other capital assets, net of depreciation	1,225,688	2,442,517	3,668,205
Total Assets	1,638,331	3,209,901	4,848,232
DEFERRED OUTFLOWS OF RESOURCES			
Aggregated deferred outflows	42,734	22,485	65,219
Total Deferred Outflows of Resources	42,734	22,485	65,219
LIABILITIES			
<i>Current Liabilities</i>			
Accounts payable and accrued liabilities	3,929	61,197	65,126
Compensated absences	1,086	2,576	3,662
Accrued salaries and employees payroll taxes	561	1,480	2,041
Customer deposits	--	59,145	59,145
Current portion of long-term debt	1,941	--	1,941
Total Current Liabilities	7,517	124,398	131,915
<i>Noncurrent Liabilities</i>			
Long-term debt	26,549	--	26,549
Net Pension Liability	15,069	33,541	48,610
Total Liabilities	49,135	157,939	207,074
DEFERRED INFLOWS OF RESOURCES			
Aggregated deferred inflows	535	1,190	1,725
Total Deferred Inflows of Resources	535	1,190	1,725
NET POSITION			
Net investment in capital assets	1,239,698	2,482,567	3,722,265
<i>Restricted for:</i>			
Stabilization by State Statue	14,123	--	14,123
Streets	64,402	--	64,402
<i>Unrestricted</i>	313,172	590,690	903,862
Total Net Position	\$ 1,631,395	\$ 3,073,257	\$ 4,704,652

The accompanying notes are an integral part of this financial statement.

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue		
		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	\$ 147,123	\$ 7,611	\$ --	\$ --	\$ (139,512)	\$ --	\$ (139,512)
Public safety	14,895	--	--	--	(14,895)	--	(14,895)
Transportation	15,628	--	14,215	--	(1,413)	--	(1,413)
Environmental protection	20,819	27,904	--	--	7,085	--	7,085
Interest and other charges	1,286	--	--	--	(1,286)	--	(1,286)
Total Governmental Activities	199,751	35,515	14,215	--	(150,021)	--	(150,021)
Business-type Activities:							
Electric Fund	459,437	423,447	--	--	--	(35,990)	(35,990)
Water/Sewer Fund	309,800	162,292	--	--	--	(147,508)	(147,508)
Total Business-type Activities	769,237	585,739	--	--	--	(183,498)	(183,498)
Total Primary Government	\$ 968,988	\$ 621,254	\$ 14,215	\$ --	\$ (150,021)	\$ (183,498)	\$ (333,519)
General Purpose Revenues and Transfers:							
Revenues							
Ad valorem taxes					62,941	--	62,941
Unrestricted intergovernmental					43,065	--	43,065
Miscellaneous Income					17,635	24,764	42,399
Transfers					--	--	--
Total General Revenues and Transfers					123,641	24,764	148,405
Change in Net Position					(26,380)	(158,734)	(185,114)
<i>Net Position at Beginning of Period</i>					<i>1,657,775</i>	<i>3,231,991</i>	<i>4,889,766</i>
Net Position at End of Period					\$ 1,631,395	\$ 3,073,257	\$ 4,704,652

The accompanying notes are an integral part of this financial statement.

FUND FINANCIAL STATEMENTS

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

	Major Fund
	General Fund
ASSETS	
Cash and cash equivalents	\$ 273,917
Taxes receivable, net	17,701
Accounts receivable, net	11,315
Due from other governments	2,808
Restricted cash and cash equivalents	64,402
Total Assets	370,143
DEFERRED OUTFLOWS OF RESOURCES	
Aggregated deferred outflows	--
Total Assets and Deferred Outflows of Resources	\$ 370,143
LIABILITIES	
Accounts payable and accrued liabilities	\$ 3,929
Accrued salaries and employees payroll taxes	561
Total Liabilities	4,490
DEFERRED INFLOWS OF RESOURCES	
Aggregated deferred inflows	17,701
Total Liabilities and Deferred Inflows of Resources	22,191
FUND BALANCE	
Restricted	
Stabilization by State Statue	14,123
Streets	64,402
Unassigned	269,427
Total Fund Balance	347,952
Total Liabilities, Deferred Inflows of Resources and Fund Balance	\$ 370,143

The accompanying notes are an integral part of this financial statement.

Town of Hobgood, North Carolina
Reconciliation of Governmental Funds Balance Sheet to the Statement of Net Position
June 30, 2020

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

Total Fund Balance - Governmental Funds	\$	347,952
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		1,268,188
Net Pension Liability		(15,069)
Other long-term liabilities (accrued interest payable, bonds payable, earned vacation payable) are not due and payable in the current period and, therefore are not reported in the funds.		(3,027)
Long-term liabilities used in governmental activities are not financial uses and, therefore are not reported in the funds.		(26,549)
Deferred outflows of resources related to pensions are not reported in the funds		42,734
Deferred inflows of resources related to pensions are not reported in the funds		(535)
Earned revenues considered deferred inflows of resources in fund statements.		17,701
Total Net Position-Governmental Funds	\$	<u>1,631,395</u>

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

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

	<u>Major Fund</u> <u>General Fund</u>
Revenues	
Ad valorem taxes	\$ 62,922
Other taxes and licenses	75
Unrestricted intergovernmental	43,065
Restricted intergovernmental	14,215
Charges for Sales & Services	27,904
Miscellaneous Income	25,171
Total Revenues	<u>173,352</u>
Expenditures	
General government	86,515
Public safety	14,895
Transportation	15,628
Environmental protection	20,819
Principal	1,862
Interest and other charges	1,286
Total Expenditures	<u>141,005</u>
Net Change in Fund Balance	32,347
<i>Fund Balance at Beginning of Period</i>	<u>315,605</u>
Fund Balance at End of Period	\$ 347,952

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

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

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

Total Net Change in Fund Balances - Governmental Funds	\$	32,347
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, however, has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		1,862
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.		(58,139)
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. (change in earned vacation pay, change in accrued interest expense)		143
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		19
Pension expense		(2,612)
Changes in Net Position-Governmental Funds	\$	<u>(26,380)</u>

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

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

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues				
Ad valorem taxes	\$ 66,500	\$ 66,500	\$ 62,922	\$ (3,578)
Unrestricted intergovernmental	36,700	36,700	43,065	6,365
Restricted intergovernmental	14,545	14,545	14,215	(330)
Charges for Sales & Services	28,000	28,000	27,904	(96)
Miscellaneous Income	20,775	21,471	22,246	775
Total Revenues	<u>166,520</u>	<u>167,216</u>	<u>170,352</u>	<u>3,136</u>
Expenditures				
General government	101,660	99,531	86,515	13,016
Public safety	22,950	22,690	14,895	7,795
Transportation	14,545	14,545	12,628	1,917
Environmental protection	24,215	27,300	20,819	6,481
Principal	1,862	1,862	1,862	--
Interest and other charges	1,288	1,288	1,286	2
Total Expenditures	<u>166,520</u>	<u>167,216</u>	<u>138,005</u>	<u>29,211</u>
Other Financing Uses				
Total Expenditures and Other Financing Uses	<u>166,520</u>	<u>167,216</u>	<u>138,005</u>	<u>29,211</u>
and Other Uses	--	--	32,347	32,347
Net Change in Fund Balance	<u>\$ --</u>	<u>\$ --</u>	<u>32,347</u>	<u>\$ 32,347</u>
<i>Fund Balance at Beginning of Period</i>			315,605	
Fund Balance at End of Period			<u>\$ 347,952</u>	

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

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

	Business-type Activities - Enterprise Funds		
	Electric Fund	Water/Sewer Fund	Total Enterprise Funds
ASSETS			
<i>Current Assets</i>			
Cash and cash equivalents	\$ 350,841	\$ 266,194	\$ 617,035
Accounts receivable, net	28,935	22,219	51,154
Restricted cash and cash equivalents	44,490	14,655	59,145
Total Current Assets	424,266	303,068	727,334
<i>Noncurrent Assets</i>			
Land and other nondepreciable assets	--	40,050	40,050
Other capital assets, net of depreciation	70,994	2,371,523	2,442,517
Total Assets	495,260	2,714,641	3,209,901
DEFERRED OUTFLOWS OF RESOURCES			
Aggregated deferred outflows	14,166	8,319	22,485
Total Deferred Outflows of Resources	14,166	8,319	22,485
LIABILITIES			
<i>Current Liabilities</i>			
Accounts payable and accrued liabilities	37,911	23,286	61,197
Compensated absences	1,288	1,288	2,576
Accrued salaries and employees payroll taxes	953	527	1,480
Customer deposits	44,490	14,655	59,145
Total Current Liabilities	84,642	39,756	124,398
<i>Noncurrent Liabilities</i>			
Net Pension Liability	21,131	12,410	33,541
Total Liabilities	105,773	52,166	157,939
DEFERRED INFLOWS OF RESOURCES			
Aggregated deferred inflows	750	440	1,190
Total Deferred Inflows of Resources	750	440	1,190
NET POSITION			
Net investment in capital assets	70,996	2,411,571	2,482,567
<i>Unrestricted</i>	331,907	258,783	590,690
Total Net Position	\$ 402,903	\$ 2,670,354	\$ 3,073,257

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

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

	Business-type Activities - Enterprise Funds		
	Electric Fund	Water/Sewer Fund	Total Enterprise Funds
Operating Revenues			
Charges for Sales & Services	\$ 423,447	\$ 162,292	\$ 585,739
Miscellaneous Income	24,764	--	24,764
Total Operating Revenues	448,211	162,292	610,503
Operating Expenses			
Water administration	--	109,155	109,155
Waste collection and treatment	--	64,275	64,275
Electric administration	156,387	--	156,387
Electrical power purchases	292,733	--	292,733
Depreciation	10,317	136,370	146,687
Total Operating Expenses	459,437	309,800	769,237
Change In Net Position	(11,226)	(147,508)	(158,734)
<i>Net Position at Beginning of Period</i>	414,129	2,817,862	3,231,991
Net Position at End of Period	\$ 402,903	\$ 2,670,354	\$ 3,073,257

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

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

	Major Enterprise Funds		
	Electric Fund	Water & Sewer Fund	Total
Cash Flows from Operating Activities:			
Cash received from customers	\$ 427,272	176,941	604,213
Cash paid for goods and services	(336,253)	(110,803)	(447,056)
Cash paid to/on behalf of employees	(107,189)	(53,961)	(161,150)
Customer deposits, net	6,075	2,155	8,230
Other operating revenue	24,764	-	24,764
Net cash provided (used) by operating activities	<u>14,669</u>	<u>14,332</u>	<u>29,001</u>
Cash Flows from Noncapital Financing Activities:			
Transfers to (from) other funds	-	-	-
Cash Flows from Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(28,000)	-	(28,000)
Net cash provided (used) by capital and related financing activities	<u>(28,000)</u>	<u>-</u>	<u>(28,000)</u>
Cash Flows from Investing Activities:			
Investment income received	-	-	-
Net increase (decrease) in cash and cash equivalents	<u>(13,331)</u>	<u>14,332</u>	<u>1,001</u>
Cash and Cash Equivalents - Beginning of Year	<u>408,662</u>	<u>266,517</u>	<u>675,179</u>
Cash and Cash Equivalents - End of Year	<u>\$ 395,331</u>	<u>280,849</u>	<u>\$ 676,180</u>
Provided (Used) by Operating Activities:			
Operating income (loss)	\$ (11,226)	(147,508)	\$ (158,734)
Depreciation	10,317	136,370	146,687
Change in assets and liabilities:			
(Increase) decrease in accounts receivables	2,631	14,649	17,280
Increase (decrease) in accounts payable and accrued liabilities	1,234	6,917	8,151
Increase (decrease) in accrued vacation	(170)	(170)	(340)
Increase (decrease) in customer deposits	6,075	2,155	8,230
Increase in net pension liabilities	4,734	2,780	7,514
Increase in deferred outflows of resources for pensions	(195)	(115)	(310)
Decrease in deferred inflows of resources for pensions	1,269	(746)	523
Total adjustments	<u>14,669</u>	<u>14,332</u>	<u>29,001</u>

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

Notes To The Financial Statements

Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

NOTE I — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Hobgood 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 Hobgood 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 present the financial information of the Town.

B. Basis of Presentation

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

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category — *governmental and proprietary* — are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. There are no remaining governmental and enterprise funds reported as non-major funds.

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

Governmental Funds. Governmental funds are those used to account for the Town's expendable financial resources and related liabilities (except those accounted for in proprietary or agency funds).

Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

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 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 sanitation services.

The Town reports the following non-major governmental funds:

Capital Project Fund. This fund is used to account for grant funds that are restricted for use for a community park.

The Town reports the following major enterprise funds:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

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 fund 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

Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and each of the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Capital Project Fund, which are consolidated with the 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 project level for the multi-year fund. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$2500. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The

**Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020**

budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted. The Town Manager has the authority to amend appropriations within departments. All other amendments must be approved by the governing board.

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

1. Deposits and Investments

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

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

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. The Board considers all highly liquid investments with a maturity of twelve months or less when purchased to be cash and cash equivalents.

3. Restricted Assets

Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening local streets per G.S. 136-41.1 through 136-41.4. Customer deposits are classified as restricted cash because they must be returned to the customer at the conclusion of service.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2007. As allowed by State law, the Town has

**Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020**

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 revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Inventory & Prepaid Items

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of \$5,000 or more than a certain cost and an estimated useful life in excess of two years. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets 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>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30 years
Buildings	50 years
Improvements	25 years
Furniture and equipment	10 years
Computers	3 years

8. Deferred outflows/inflows of resources

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

Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

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

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. 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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and 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 Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Accrued compensation is paid to an employee at time of termination. Any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes.

11. 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 Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

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. The Town has no nonspendable fund balance.

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

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

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

Restricted for Debt Service — funds restricted by USDA debt agreements to payment of principal and interest due on the debt.

Committed Fund Balance — This classification includes the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town of Hobgood's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or otherwise revise the limitation. Any changes or removal of specific purpose requires majority action by the governing body.

Committed for Capital Projects - portion of fund balance assigned by the Board for capital asset acquisition.

Assigned Fund Balance — This classification includes the portion of fund balance that the Town of Hobgood intends to use for specific purposes. The Town has no assigned fund balance.

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

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

The Town of Hobgood has a revenue spending policy that provides guidance for programs with multiple

**Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020**

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.

12. Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and 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 Hobgood employer contributions are recognized when due and the Town of Hobgood 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 II—STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

- 1. Noncompliance with North Carolina General Statutes**
NONE
- 2. Contractual Violations**
NONE
- 3. Deficit in Fund Balance or Net Position of Individual Funds**
NONE
- 4. Excess of Expenditures over Appropriations**
NONE

NOTE III—DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits and Investments

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' 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's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-

Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

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. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2020, the Town's deposits had a carrying amount of \$1,013,799 and a bank balance of \$1,057,067. Of the bank balance, \$553,742 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. Petty cash was \$700.

2. Receivables — Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position are net of the following allowance for doubtful accounts:

Enterprise Fund:	
Electric Fund	28,540
Total	<u>28,540</u>
Grand Total	<u>\$ 28,540</u>

**Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020**

3. Capital Assets

Primary Government

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

General Fund Capital Assets

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 42,500	\$ -	\$ -	\$ 42,500
Construction in Progress	-	-	-	-
Total capital assets not being depreciated	<u>42,500</u>	<u>-</u>	<u>-</u>	<u>42,500</u>
Capital assets being depreciated:				
Buildings and other improvements	1,964,942	-	-	1,964,942
Equipment and Vehicles	148,898	-	-	148,898
Total capital assets being depreciated	<u>2,113,840</u>	<u>-</u>	<u>-</u>	<u>2,113,840</u>
Less accumulated depreciation for:				
Buildings and other improvements	735,792	49,094	-	784,886
Equipment and Vehicles	94,220	9,045	-	103,265
Total accumulated depreciation	<u>714,040</u>	<u>\$ 58,139</u>	<u>\$ -</u>	<u>888,151</u>
Total capital assets being depreciated, net	<u>1,399,800</u>			<u>1,225,688</u>
Governmental activity capital assets, net	<u>\$ 1,442,300</u>			<u>\$ 1,268,188</u>

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

Governmental Activities:

General Government	<u>\$ 58,139</u>
Total	<u>\$ 58,139</u>

Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

Enterprise Funds

Capital asset activity for the Enterprise Fund for the year ended June 30, 2020, was as follows:

Business-type activities:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets being depreciated:				
Distribution systems	\$ 207,471	\$ -	\$ -	\$ 207,471
Equipment	209,488	-	-	209,488
Vehicles	21,692	28,000	-	49,692
Total capital assets being depreciated	<u>438,651</u>	<u>\$ 28,000</u>	<u>\$ -</u>	<u>466,651</u>
Less accumulated depreciation for				
Distribution systems	207,471	\$ -	\$ -	207,471
Equipment	156,176	7,517	-	163,693
Vehicles	21,692	2,800	-	24,492
Total accumulated depreciation	<u>377,355</u>	<u>\$ 10,317</u>	<u>\$ -</u>	<u>395,656</u>
Capital assets being depreciated, net	<u>61,296</u>			<u>70,995</u>
Electric business-type activities capital assets, net	<u>\$ 61,296</u>			<u>\$ 70,995</u>

Water and Sewer Fund Capital Assets

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 40,050	\$ -	\$ -	\$ 40,050
Total capital assets not being depreciated	<u>40,050</u>	<u>-</u>	<u>-</u>	<u>40,050</u>
Capital assets being depreciated:				
Distribution system	3,709,955	-	-	3,709,955
Equipment	143,491	-	-	143,491
Water system	1,065,081	-	-	1,065,081
Total capital assets being depreciated	<u>4,918,525</u>	<u>-</u>	<u>-</u>	<u>4,918,526</u>
Less accumulated depreciation for:				
Distribution system	1,666,184	123,666	-	1,789,850
Equipment	143,115	94	-	143,209
Water system	601,335	12,611	-	613,946
Total accumulated depreciation	<u>2,136,488</u>	<u>\$ 136,371</u>	<u>\$ -</u>	<u>2,547,005</u>
Total capital assets being depreciated, net	<u>2,782,037</u>			<u>2,371,521</u>
Water and Sewer Business-type activities capital assets, net	<u>2,822,087</u>			<u>2,411,571</u>

Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Hobgood is a participating employer in the State-wide 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, or by calling (919) 981-5454 or at www.osc.nc.gov.

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

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

Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Hobgood 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 Hobgood's contractually required contribution rate for the year ended June 30, 2020, was 7.15% of compensation for law enforcement officers and 6.73% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Hobgood were \$9,562 for the year ended June 30, 2020.

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 \$48,610 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, 2020, the Town's proportion was 0.00159%, which was a decrease of 0.00036% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the Town recognized pension expense of \$20,266. 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	\$ 8,323	\$ -
Changes of assumptions	7,923	-
Net difference between projected and actual earnings on pension plan investments	1,186	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,310	1,725
Employer contributions subsequent to the measurement date	11,845	-
Total	\$ 32,587	\$ 1,725

Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

\$11,845 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2020	\$ 8,729
2021	3,662
2022	4,863
2023	1,763
2024	-
Thereafter	-
	\$ 19,017

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	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 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 returns 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

Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

major asset class as of June 30, 2020 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

Sensitivity of the net pension liability (asset) to changes in the discount rate	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
	111,181	48,610	(3,398)

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.

Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

b. Other Employment Benefits

Healthcare Benefits

Plan Description. According to a Town resolution, the Town provides post-employment health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (LGERS) and: have at least 25 years of service with the Town and is at least age 62, or is at least 55 with 10 years of LGERS service and five years of service with the Town.

The Town pays the full cost of coverage until the retiree is eligible for Medicare if the retiree is at least age 62 with a minimum of 25 years of service with the Town. The Town will pay the full cost of coverage for 6 months or until the retiree is eligible for Medicare, whichever occurs first, if the retiree is at least at 55 with 10 years of LGERS service and 5 years of service with the Town. Retirees are eligible to continue benefits after the Town's coverage have stopped, but the full cost of coverage is the responsibility of the retiree. Also, dependent coverage is available but must be paid entirely by the retiree. The Town Council may amend the benefit provisions.

Funding Policy. By Town resolution, the Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current ARC rate is 4.00% of annual covered payroll. The Town obtains healthcare through private insurers. The Town's required contributions are 1.2% of covered payroll. There were no contributions made by employees. The Town's obligation to contribute to the Plan is established by the Town and may be amended by the Town. As of June 30, 2020, the Town had no eligible participants. The Town had no eligible participants. The Town will fund the plan when it has eligible participants.

Summary of Significant Accounting Policies: Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

**Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020**

2. Deferred Outflows and Inflows of Resources

The Town has several inflows/outflows of resources:

Source	Amount
<i>Deferred outflows of resources is comprised of the following:</i>	
Contributions to pension plan in current fiscal year	\$ 11,845
Differences between expected and actual experience	8,323
Changes of assumptions	7,923
Net difference between projected and actual earnings on pension plan investments	1,186
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,310
Total	\$ 32,587

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)	\$ -	\$ 17,701
Changes in assumptions	-	-
Differences between expected and actual experience	-	-
Changes in proportion and difference between employer contributions and proportionate share of contributions	1,725	-
Total	\$ 1,725	\$ 17,701

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters. The Town has property, general liability and auto liability through Argonaut Great Central Insurance Co. They carry workmen's compensation coverage up to statutory limits, and employee health coverage up to a \$1 million lifetime limit. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years. The Town has elected not to carry additional flood insurance. During the flood of 1999 the Town Properties were not damaged by flooding.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given

**Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020**

time of the Town's funds are performance bonded through a commercial surety bond. The town officials that have access to funds are bonded under a blanket bond for \$25,000. The finance officer is individually bonded for \$50,000.

4. Long-Term Obligations

a. Installment Obligations

During the June 30, 2008 fiscal year, the Town entered into a loan with the USDA in the amount of \$27,000 to pay for roof repairs on the Town hall. Principal and interest payments are made annually. The interest rate on this note is 4.375%. The final payment is due June 23, 2033. The balance of this loan is \$17,531 at June 30, 2020.

During the June 30, 2015 fiscal year, the Town received a USDA grant for \$41,000 and loan for \$15,000 for the purchase of a backhoe. Principal and interest payments are due annually. The interest rate on this note is 4.00%. The final payment is due October 2029. The balance of this loan is \$10,959 at June 30, 2020.

b. Installment Obligations

Annual debt service requirements to maturity for the long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2021	1,941	1,213	3,154
2022	2,023	1,131	3,154
2023	2,108	1,046	3,154
2024	2,198	956	3,154
2025-2028	9,762	2,854	12,616
2029-2033	10,458	1,222	11,680
	<u>28,490</u>	<u>8,422</u>	<u>36,912</u>

Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

c. Changes in Long-Term Debt:

The following is a summary of charges in the Town's business-type activities in long-term debt:

Governmental Activities	Balance			Balance June 30, 2020	Current Maturities
	July 1, 2019	Additions	Retirements		
Installment loans	\$ 30,352	\$ -	\$ 1,862	\$ 28,490	\$ 1,941
Pension Related Debt	11,693	3,376		15,069	
Total Long Term Liabilities	\$ 42,045	\$ 3,376	\$ 1,862	\$ 43,559	\$ 1,941

Business Type Activities	Balance			Balance June 30, 2020	Current Maturities
	July 1, 2019	Additions	Retirements		
Pension Related Debt	26,027	7,514	-	33,541	-
Total Long Term Liabilities	\$ 26,027	\$ 7,514	\$ -	\$ 33,541	\$ -

5. Fund Balance

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

Total Fund Balance-General Fund	\$ 347,952
Less:	
Stabilization by State Statute	14,123
Streets-Powell Bill	64,402
Working Capital / Fund Balance Policy	
Remaining Fund Balance	269,427

The Town of Hobgood 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.

C. Commitments

The Town entered into a contract with NC Eastern Municipal Power Agency to purchase electricity which runs indefinitely. Under the contract, the Town is committed to purchase power at variable rates each year.

NOTE V — 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

Town of Hobgood, North Carolina
Notes to the Financial Statements
Year Ended June 30, 2020

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 VI —SIGNIFICANT EFFECTS OF SUBSEQUENT EVENTS

The Town has evaluated subsequent events from the date of the balance sheet through the date the report is available to be issued which is the date of the independent auditors' report. The Town has not evaluated subsequent events after that date. There were no subsequent events during this period that require disclosure.

Subsequent events have been evaluated through December 3, 2020 the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

Town of Hobgood, North Carolina
Town of Hobgood Proportionate Share of Net Pension Liability (Assets)
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>
Proportion of the net pension liability (asset) (%)	0.00178%	0.00159%	0.00195%	0.00140%	0.00237%	0.00314%	0.00310%
Proportion of the net pension liability (asset) (\$)	\$ 48,610	\$ 37,720	\$ 29,791	\$ 29,713	\$ 10,636	\$ (18,519)	\$ 37,367
Covered-employee payroll	\$ 122,272	\$ 129,197	\$ 118,098	\$ 106,691	\$ 117,300	\$ 143,350	\$ 141,486
Proportion of the net pension liability (asset) as a percentage of its covered-employee payroll	39.76%	29.20%	25.23%	27.85%	9.07%	-12.92%	26.41%
Plan fiduciary net position as a percentage of the total pension liability	95.39%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

**Town of Hobgood, North Carolina
Town of Hobgood Contributions
Required Supplementary Information
Last Seven Fiscal Years**

Local Government Employees' Retirement System

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 11,845	\$ 9,562	\$ 9,794	\$ 7,948	\$ 6,866	\$ 8,415	\$ 10,135
Contributions in relation to the contractually required contributions	11,845	9,562	9,794	7,948	6,866	8,415	10,135
Contributions deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered-employee payroll	\$ 132,175	\$ 122,272	\$ 129,197	\$ 118,098	\$ 106,691	\$ 117,300	\$ 143,350
Contributions as a percentage of covered-employee payroll	8.96%	7.82%	7.58%	6.73%	6.44%	7.17%	7.07%

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

**Town of Hobgood, North Carolina
General Fund
Schedule of Revenue, Expenditures, and Changes
In Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Ad Valorem Taxes			
Taxes		62,922	
Total	<u>66,500</u>	<u>62,922</u>	<u>(3,578)</u>
Unrestricted Intergovernmental Revenues			
Local option sales tax		25,325	
Utility franchise tax		16,089	
Beer & wine tax		1,402	
Solid waste disposal tax		249	
Total	<u>36,700</u>	<u>43,065</u>	<u>6,365</u>
Restricted Intergovernmental Revenues			
Powell Bill allocation		14,215	
Total	<u>14,545</u>	<u>14,215</u>	<u>(330)</u>
Sales and Services			
Garbage services		27,904	
Total	<u>28,000</u>	<u>27,904</u>	<u>(96)</u>

**Town of Hobgood, North Carolina
General Fund
Schedule of Revenue, Expenditures, and Changes
In Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other Revenues			
Tower rent		7,536	
Miscellaneous		14,710	
Total	21,471	22,246	775
Total Revenue	\$ 167,216	\$ 170,352	\$ 3,136
Expenditures			
General Government			
Salaries and benefits		31,128	
Professional services		8,727	
Dues & subscriptions		3,023	
Auto expenses		6,955	
Telephone		3,556	
Insurance & bonds		9,200	
Travel		990	
Supplies		3,733	
Other operating expenses		19,203	
Total	99,531	86,515	13,016

**Town of Hobgood, North Carolina
General Fund
Schedule of Revenue, Expenditures, and Changes
In Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public Safety			
Salaries and benefits		9,816	
Uniforms		216	
Repairs & maintenance		369	
Other operating expenses		4,494	
Total	<u>22,690</u>	<u>14,895</u>	<u>7,795</u>
Transportation			
Salaries and benefits		4,173	
Street maintenance		8,455	
Total	<u>14,545</u>	<u>12,628</u>	<u>1,917</u>
Environmental Protection			
Salaries and benefits		14,143	
Auto expenses		776	
Landfill		5,813	
Other operating expenses		87	
Total	<u>27,300</u>	<u>20,819</u>	<u>6,481</u>
Debt Service			
Principal retirement		1,862	
Interest and other charges		1,286	
Total	<u>3,150</u>	<u>3,148</u>	<u>2</u>

Schedule 3
Continued

**Town of Hobgood, North Carolina
General Fund
Schedule of Revenue, Expenditures, and Changes
In Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2020**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Total Expenditures	167,216	138,005	29,211
Revenue over (under) expenditures	-	32,347	32,347
Other Financing Sources (Uses)			
Appropriations	-		-
Transfers			
Total	-	32,347	32,347
Net change in fund balance	<u>\$ -</u>	32,347	<u>\$ 32,347</u>
Fund balance - July 1		315,605	
Fund balance - June 30		<u>\$ 347,952</u>	

Schedule 4

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

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water Sales		\$ 90,706	
Total	122,000	90,706	(31,294)
Sewer Charges			
Sewer charges		71,586	
Total	73,000	71,586	(1,414)
Other operating revenues		-	
Total operating revenues	1,000	-	(1,000)
Total revenues	\$ 196,000	162,292	\$ (33,708)
Expenditures:			
Water and sewer administration			
Salaries and benefits		43,404	
Professional services		39,666	
Other operating expenditures		23,936	
Total	117,085	107,006	10,079
Waste Collection and Treatment			
Salaries and benefits		10,557	
Other operating expenditures		53,718	
Total	78,915	64,275	14,640

**Schedule 4
Continued**

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

	Budget	Actual	Variance Positive (Negative)
Total expenditures	196,000	171,281	24,719
Other financing sources (uses)			
Capital contributions	-	-	
Total other financing sources (uses)	-	-	-
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ (8,989)	\$ (8,989)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(136,370)	
Increase in net pension liabilities		(2,780)	
Decrease in deferred inflows of resources - pensions		746	
Decrease in deferred outflows of resources - pensions		(115)	
Total reconciling items		\$ (138,519)	
Changes in Net Position, GAAP basis		(147,508)	

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

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Charges for services		419,221	
Total	\$ 475,000	\$ 419,221	\$ (55,779)
Nonoperating revenues			
Other revenues	28,808	28,990	182
Interest earnings			
Total revenues	\$ 503,808	448,211	\$ (55,597)
Expenditures:			
Salaries and benefits		107,190	
Professional services		3,436	
Electricity purchases		292,733	
Contracted services		1,500	
Insurance		3,000	
Telephone		2,707	
Auto		6,610	
Supplies		9,938	
Office		1,535	
Utilities		5,973	
Other operating expenditures		11,228	
Total	509,500	445,850	63,650
Revenues over (under)			
expenditures	\$ (5,692)	2,361	\$ 8,053
Other Financing Sources (Uses)			
Appropriations	5,692		
Transfers			
Total	-	-	-
Reconciliation from budgetary basis			
(modified accrual) to full accrual:			
Reconciling items:			
Depreciation		(10,317)	
Increase in net pension liabilities		(6,770)	
Decrease in deferred outflows of resources - pensions		2,231	
Decrease in deferred inflows of resources - pensions		1,269	
Total reconciling items		\$ (13,587)	
Changes in Net Position, GAAP basis		(11,226)	

OTHER SCHEDULES

Town of Hobgood, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
For the Fiscal Year Ended June 30, 2020

Fiscal Year	Uncollected Balance July 1, 2019	Additions	Collections and Credits	Uncollected Balance June 30, 2020
2020	\$ -	\$ 65,328	\$ 61,345	\$ 3,983
2019	5,051		2,723	2,328
2018	2,044		411	1,633
2017	1,534		17	1,517
2016	1,486		7	1,479
2015	1,822		-	1,822
2014	1,378		159	1,219
2013	1,254		167	1,087
2012	992		-	992
2011	893		-	893
2010	748		-	748
	<u>17,202</u>	<u>65,328</u>	<u>64,829</u>	<u>17,701</u>

Ad Valorem Taxes Receivables, Net \$ 17,701

Reconciliation with Revenues:

Ad Valorem Tax - General Fund	\$ 62,922
Reconciling items:	
Interest collected	(540)
Releases and adjustments	2,447
Total Collections and Credits	<u>\$ 64,829</u>

Town of Hobgood, North Carolina
General Fund
Analysis of Current Tax Levy
For the Fiscal Year Ended June 30, 2020

	Property Valuation	Rate per \$100	Total Levy	Total Levy Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property tax at current year's tax rate					
Net Valuation	<u>\$ 10,050,488</u>	0.65	<u>\$ 65,328</u>	<u>\$ 51,740</u>	<u>\$ 13,588</u>
Net levy					
Less uncollected taxes at June 30, 2020			<u>3,983</u>	<u>3,983</u>	<u>-</u>
Current year's taxes collected			<u>\$ 61,345</u>	<u>\$ 47,757</u>	<u>\$ 13,588</u>
Current levy collection percentage			<u>93.90%</u>	<u>92.30%</u>	<u>100.00%</u>