

# **TOWN OF LILLINGTON, NORTH CAROLINA**

## **ANNUAL FINANCIAL REPORT**

*As of and for the Year Ended June 30, 2020*

*And Report of Independent Auditor*

# TOWN OF LILLINGTON, NORTH CAROLINA

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**TOWN OF LILLINGTON**

**FINANCIAL SECTION**

## **Report of Independent Auditor**

To the Honorable Mayor and Town Commissioners  
Town of Lillington  
Lillington, North Carolina

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Lillington, North Carolina (the "Town"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

## **Opinions**

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2020, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year 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 the Required Supplementary Information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the *Governmental Accounting Standards Board* who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town. The individual fund schedules and other schedules as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated April 5, 2021 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town's internal control over financial reporting and compliance.

Cherry Bekaert LLP

Raleigh, North Carolina  
April 5, 2021

# TOWN OF LILLINGTON, NORTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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As management of the Town of Lillington (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Lillington 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 Lillington exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$10,513,382 (*net position*).
- The government's total net position increased by \$261,086. Decrease in the governmental activities amounts to \$117,987 and increase in the enterprise type activities amounts to \$379,073. As a result of this increase, there have been some positive improvements to our downtown parking and revitalization efforts; however, unforeseen closure of programs due to Covid-19 in the fourth quarter of 2020 also affected the Town's financial condition.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$3,133,556, an increase of \$109,061 in comparison with the prior year. Approximately 69% of this total amount, or \$2,163,570, is available for spending at the government's discretion (unreserved fund balance). Approximately 31% of this total amount, or \$969,986 is non-spendable, restricted, committed, and assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,163,570 or 44.3% of total General Fund expenditures, for the fiscal year.
- At June 30, 2020, the Town's total debt was \$2,765,560. Decrease of the Town's debt was as a result of making principal payments.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net position and the statement of activities (on pages 15-16) provide information about the activities of the Town as a whole and present a longer-term view of the Town's finances. Fund financial statements start on page 17. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Town's operations in more detail than the government-wide statements by providing information about the Town's most significant funds. The remaining statements provide financial information about activities for which the Town acts solely as a trustee or agent for the benefit of those outside of the government.

### *Reporting the Town as a Whole*

Our analysis of the Town as a whole begins on page 6. One of the most important questions asked about the Town's finances is, "Is the Town, as a whole, better or worse as a result of the year's activities?" The statement of net position and the statement of activities report information about the Town as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.



# TOWN OF LILLINGTON, NORTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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These two statements report the Town's net financial position and changes in them. Readers are encouraged to think of the Town's net position—the difference between assets, liabilities, and deferred inflows of resources—as one way to measure the Town's financial health or financial position. Over time, increases or decreases in the Town's net position are one indicator of whether its financial health is improving or deteriorating. The reader must also consider other nonfinancial factors; however, such as changes in the Town's property tax base and the condition of the Town's infrastructure, to assess the overall health of the Town.

In the statement of net position and the statement of activities, we divide the Town into three kinds of activities:

- **Governmental activities**—Most of the Town's basic services are reported here, including the general administration, police, fire, public services, and parks and recreation departments. Property taxes, sales and use taxes, intergovernmental revenues (utility franchise taxes, Powell Bill, etc.), along with various federal and State grants finance most of these activities.
- **Business-type activities**—The Town charges a fee to customers to help cover all or most of the cost of certain services it provides. The Town's utility systems (water, sewer, and storm water) and other business-type activities are reported here.
- **Component units**—The Town includes one separate legal entity in its report—the Town of Lillington ABC Board. Although legally separate, this "component unit" is important because the Town appoints the ABC Board. The Town is not financially accountable for them, even though net profits are distributed to the Town; however, the Town Board authorized, through resolution, the ABC Board to apply net profits toward their outstanding debt.

### *Reporting the Town's Most Significant Funds*

Our analysis of the Town's major funds begins on page 11. The fund financial statements provide detailed information about the most significant funds—not the Town as a whole. Some funds are required to be established by State law and by bond covenants. The Town's two types of funds—governmental and proprietary—use different methods of accounting.

**Governmental funds**—Most of the Town's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the Town's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Town's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net position and the statement of activities) and governmental funds in reconciliation at the bottom of the fund financial statements.

**Proprietary funds**—When the Town charges customers for the services it provides—whether to outside customers or to other units of the Town—these services are generally reported in proprietary funds. Proprietary funds are reported in the same way all activities are reported in the statement of net position and the statement of activities. In fact, the Town's Enterprise Funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds.

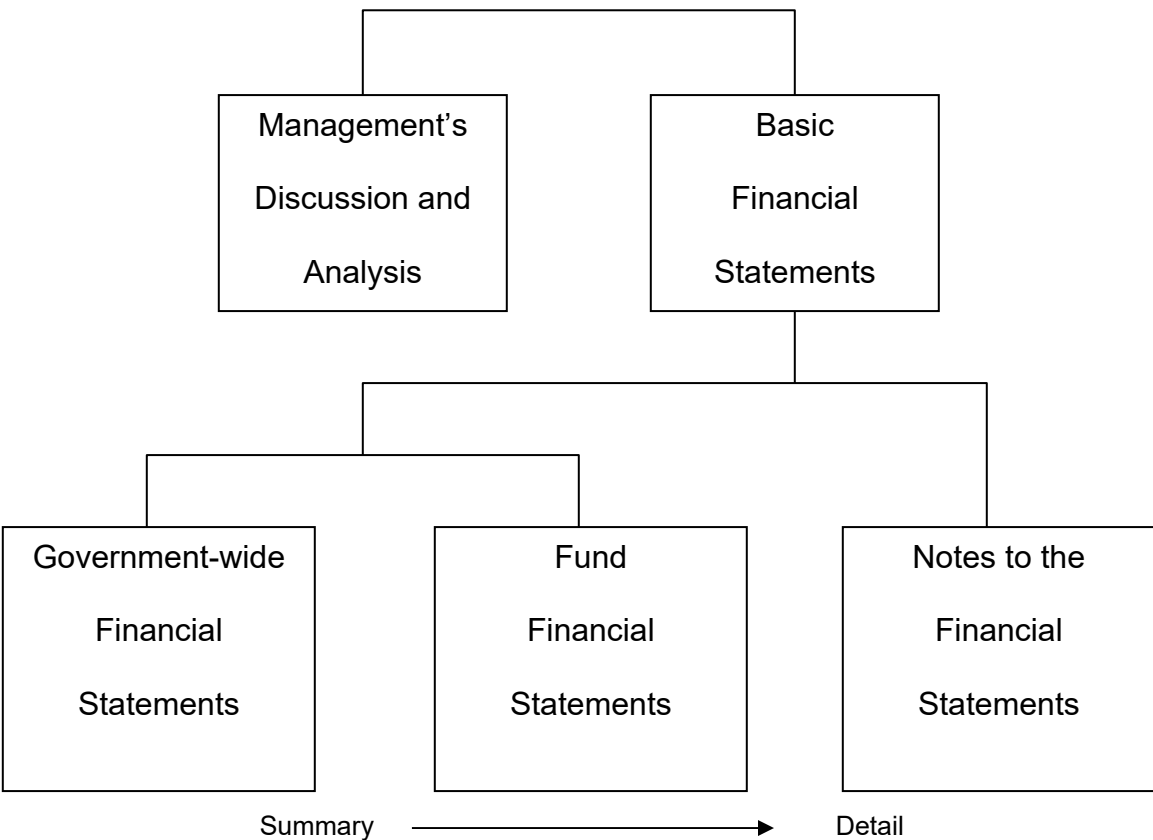
**TOWN OF LILLINGTON, NORTH CAROLINA**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**

JUNE 30, 2020

**THE TOWN AS A WHOLE AND GOVERNMENT-WIDE FINANCIAL ANALYSIS**

The government-wide financial statements for the fiscal year ended June 30, 2020 are presented in accordance with GASB Statement (“GASBS”) No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*.

**Required Components of Annual Financial Report**  
**Figure 1**



**Net Position**

The Town’s combined net position increased this year to \$10,513,382 from \$10,252,296. Given that the Town saw an increase in net position of \$261,086 from FY2019’s total of \$10,252,296, it is a testament to the Town’s Board decisions to begin revitalization, economic development, and capital improvements planning. Our analysis below focuses on the net financial position (Table 1), and changes in net position (Table 2) of the Town’s governmental and business-type activities.

The net position for governmental activities of \$5,061,853 decreased by \$117,987 compared to prior fiscal year. We believe these result from a combination of several factors which contributed to the improving fiscal health of the government. The most significant factor, however, was the increased expenses of capital assets in continuing to meet the downtown revitalization needs due to growth in the Town. Restricted and unrestricted net position combined for a net decrease.

# TOWN OF LILLINGTON, NORTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

The net position of our business-type activities increased by \$379,073 in 2020 as operating revenues outpaced expenses. Unrestricted net position in the governmental activities—the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements—decreased to \$168,393 as compared to \$687,162. The Town will use the unrestricted net position to meet future budget needs and any potential deficits. These balances are also used as a tool to leverage the need for future tax increases. The net position of the Town has remained stable even though the demand for current and enhanced services continued to rise, and the Town continues to make capital improvements to increase quality of life. Other surrounding regions, as well as ourselves, have experienced the same issues from unusually high sewer treatment due to inflow and infiltration from aged infrastructure and unforeseen natural disasters.

**Town of Lillington's Net Position**  
**Table 1**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 3,209,049	\$ 3,050,484	\$ 1,688,550	\$ 1,393,625	\$ 4,897,599	\$ 4,444,109
Restricted assets	142,041	147,872	139,220	135,492	281,261	283,364
Capital assets	6,732,732	6,577,638	3,984,821	4,142,852	10,717,553	10,720,490
Total assets	10,083,822	9,775,994	5,812,591	5,671,969	15,896,413	15,447,963
Total deferred outflows of resources	446,580	439,719	104,269	116,784	550,849	556,503
Long-term liabilities outstanding	4,895,902	4,533,268	219,230	190,091	5,115,132	4,723,359
Other liabilities	433,420	390,012	242,482	520,337	675,902	910,349
Total liabilities	5,329,322	4,923,280	461,712	710,428	5,791,034	5,633,708
Total deferred inflows of resources	139,227	112,593	3,619	5,869	142,846	118,462
Net Position:						
Net investment in						
capital assets	3,967,172	3,698,517	3,984,821	4,142,852	7,951,993	7,841,369
Restricted	926,288	794,161	-	-	926,288	794,161
Unrestricted	168,393	687,162	1,466,708	929,604	1,635,101	1,616,766
Total Net Position	\$ 5,061,853	\$ 5,179,840	\$ 5,451,529	\$ 5,072,456	\$ 10,513,382	\$ 10,252,296

### Revenues and Expenses

The Town's total revenues (excluding transfers and special items) increased 12.26% (\$835,794) over the previous fiscal year. Charges for services, along with other taxes, led the majority of the increase which was coupled with increases in capital grants and contributions and increases in property taxes. Interest revenue, in both the Town's Governmental and business-type activities, experienced a decrease.

# TOWN OF LILLINGTON, NORTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

**Town of Lillington's Changes in Net Position**  
**Table 2**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program Revenues:						
Charges for services	\$ 805,251	\$ 770,010	\$ 2,412,071	\$ 2,068,287	\$ 3,217,322	\$ 2,838,297
Operating grant and contributions	303,556	178,081	4,889	58,928	308,445	237,009
Capital grants and contributions	191,161	275,000	318,686	-	509,847	275,000
General Revenues:						
Property taxes	1,946,856	1,891,416	-	-	1,946,856	1,891,416
Other taxes	1,370,310	1,015,753	-	-	1,370,310	1,015,753
Grants and contributions not restricted to specific programs	159,000	340,960	-	-	159,000	340,960
Interest	34,709	54,652	8,530	15,023	43,239	69,675
Other	82,886	148,297	14,939	643	97,825	148,940
Total Revenues	4,893,729	4,674,169	2,759,115	2,142,881	7,652,844	6,817,050
Expenses:						
Governing body	187,816	240,129	-	-	187,816	240,129
Administration	587,921	629,733	-	-	587,921	629,733
Finance	455,438	427,216	-	-	455,438	427,216
Planning and inspections	196,308	170,598	-	-	196,308	170,598
Public works	901,679	625,341	-	-	901,679	625,341
Police	1,373,614	1,093,010	-	-	1,373,614	1,093,010
Fire	612,306	461,028	-	-	612,306	461,028
Streets	32,058	88,712	-	-	32,058	88,712
Parks and recreation	585,295	608,708	-	-	585,295	608,708
Interest	79,281	121,841	-	-	79,281	121,841
Water and sewer	-	-	2,380,042	2,726,278	2,380,042	2,726,278
Total Expenses	5,011,716	4,466,316	2,380,042	2,726,278	7,391,758	7,192,594
Increase in net position before transfers	(117,987)	207,853	379,073	(583,397)	261,086	(375,544)
Transfers	-	-	-	-	-	-
Increase in net position	(117,987)	207,853	379,073	(583,397)	261,086	(375,544)
Net position, July 1,	5,179,840	4,971,987	5,072,456	5,655,853	10,252,296	10,627,840
Net position, June 30	\$ 5,061,853	\$ 5,179,840	\$ 5,451,529	\$ 5,072,456	\$ 10,513,382	\$ 10,252,296

The total cost of all programs and services increased approximately 2.77% or \$199,164. The Town moderated the increased demands for services and the resulting cost to Town operations in continued response to the economic growth. Results of operations show that governmental functions saw a moderate increase and the business-type activities of the water and sewer fund saw a moderate decrease when compared to last fiscal year.

# **TOWN OF LILLINGTON, NORTH CAROLINA**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

*JUNE 30, 2020*

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Several aspects of the Town's financial operations influenced the total unrestricted government net position. These are highlighted as follows:

- The Town's continued high collection of property taxes billed exceeding a tax collection rate of 99%. There was an increase of \$55,440 in ad valorem taxes.
- Sales tax increased during this fiscal year.
- Permits and fees in the Town's governmental activities increased over the past fiscal year. This was mainly due to an increase in building and zoning permits issued.
- The net position for business-type operations increased this year by \$379,073 due to increases in revenues. Harnett County ("HC") sells Lillington water and also treats the Town's wastewater. During FY2019-2020 the Town purchased 73,670,026 gallons from Harnett County compared to 56,914,654 gallons in FY2018-2019. Increased amount of water purchased resulted in an increase in water expense paid to HC of \$3,492 over prior fiscal year. HC treated 244,882,871 metered gallons of wastewater during FY19-20 compared to 337,119,643 metered gallons during FY2018-2019; this resulted in a decrease of \$191,557 paid to HC for the treatment of wastewater over the previous fiscal year. The Town is billed for every gallon of wastewater runoff that HC is required to treat. The Town only bills its customers for usage which in FY2018-2019 was 95,493,872 gallons compared to 100,387,670 gallons billed during FY2019-2020. The Town, in continuation with the I/I Study, completed smoke testing of sewer lines.

### **Governmental Activities**

Property tax revenues increased slightly compared to the prior year. Sales tax grew moderately in addition to the property taxes. The positive news in both of these significant revenue sources is that declines experienced in the past are now trending to show the growth in the Town.

The total cost of all governmental activities this year increased by \$545,400. As shown in the statement of activities on page 16, the amount that our taxpayers ultimately finance for these activities through Town taxes was \$3,711,166, an increase of \$409,997 from the prior year.

The Town paid for the remaining "public benefit" portion of governmental activities with sales tax, other taxes, and other general revenues.

# TOWN OF LILLINGTON, NORTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

**Town of Lillington's Governmental Activities**  
**Table 3**

	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
Governing body	\$ 187,816	\$ 187,816
Administration	587,921	587,921
Finance	455,438	455,438
Planning and inspections	196,308	47,141
Public works/streets	933,737	260,157
Police	1,373,614	1,213,713
Fire	612,306	485,215
Parks and recreation	585,295	395,066
Interest on long-term debt	79,281	79,281
<b>Total</b>	<b>\$ 5,011,716</b>	<b>\$ 3,711,748</b>

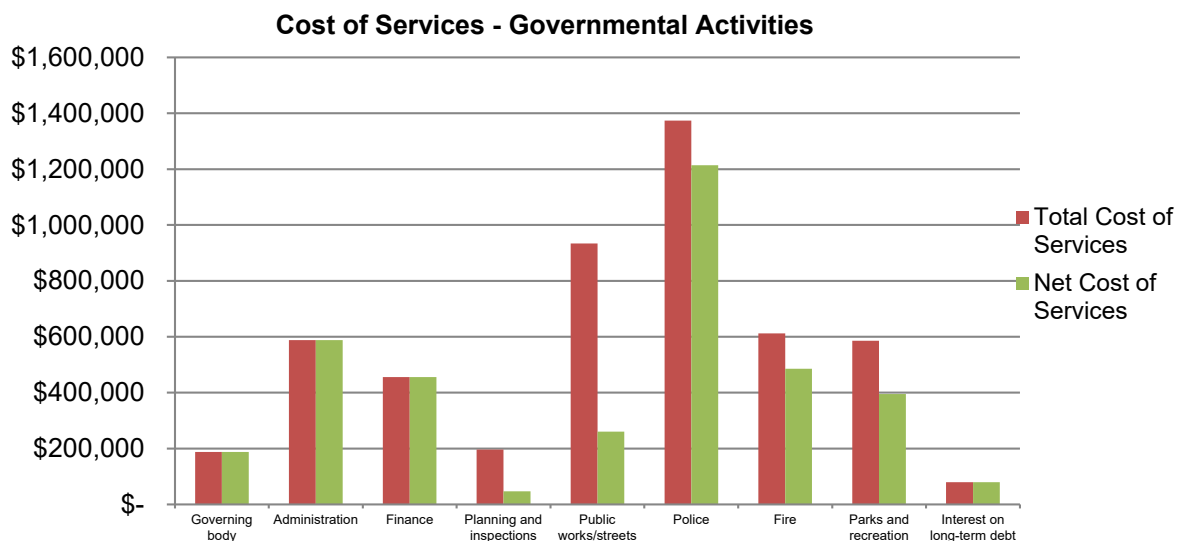


Table 3 presents the cost of each of the Town's programs—governing body, administration, finance, planning and inspections, public work streets, police, fire, and parks and recreation—as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that was placed on the Town's taxpayers by each of these functions.

### Business-Type Activities

Charges for services of the Town's business-type activities (see Table 2) increased over the past fiscal year (\$2,068,287 in 2019 compared to \$2,412,071 in 2020). The Town's water and sewer utility increased rates for the fiscal year ended June 30, 2020, and experienced an increase in operating revenues due to the rate increase and an increase in new accounts.

# TOWN OF LILLINGTON, NORTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

### Financial Analysis of the Town's Funds

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

**Governmental Fund** – The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, fund balance available in the General Fund was \$2,163,570. The Town currently has an available fund balance of 44.3% of general fund expenditures.

At June 30, 2020, the governmental funds of the Town reported a combined fund balance of \$3,133,556, a 3.6% increase from last year.

**General Fund Budgetary Highlights** – During the fiscal year, the Town revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and State grants; and 3) increases in appropriations that become necessary to maintain services. However, expenditures were held in check and the Town was able to comply with its budgetary requirements, with the exception of expenditures related to the purchase of and first debt service payment of a parking lot.

### General Fund Revenues on the Governmental Fund Basis

Revenue Sources	Actual Amount	Percent of Total	Increase (Decrease) from 2019
Ad valorem taxes	\$ 1,943,848	40%	\$ 51,962
Other taxes and licenses	380	0%	(500)
Unrestricted intergovernmental	1,526,213	31%	170,380
Restricted intergovernmental	497,434	10%	44,353
Permits and fees	252,818	5%	42,515
Sales and services	552,433	11%	(7,274)
Investment earnings	34,529	1%	(19,841)
Miscellaneous	52,206	1%	(8,755)
	<u>\$ 4,859,861</u>	<u>100.0%</u>	<u>\$ 272,840</u>

The most significant component in General Fund revenues remains to be property taxes. Property taxes for the Town increased \$51,962 compared to the previous year. Also, sales and services showed a decrease over the previous year by \$7,274. In addition, unrestricted intergovernmental revenues are showing an increase of \$170,380. The most significant changes in General Fund expenditures, when compared to the previous fiscal year, occurred in Public Works, Parks and Recreation and Debt Service. In the Public Works department, there were increases due to constructing a parking lot at 8th/Ivey streets and the purchase of an existing parking lot downtown. The parks and recreation department experienced significant decreases from the prior year to impacts of COVID-19 and not being able to run normal programs in the spring of 2020. Debt Service decreased due to less maturity payments due in FY2020 versus FY2019.

# TOWN OF LILLINGTON, NORTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

### General Fund Expenses on the Governmental Fund Basis

Expenditure Sources	Actual Amount	Percent of Total	Increase (Decrease) from 2019
Governing body	\$ 187,816	4%	\$ (133,569)
Administration	213,798	4%	10,817
Finance	420,152	9%	3,466
Planning and inspections	241,611	5%	67,739
Public works	951,449	19%	155,680
Police	1,174,585	24%	21,395
Fire	434,822	9%	66,705
Flatwoods fire district	134,096	3%	32,493
Streets	239,193	5%	(15,804)
Parks and recreation	570,880	12%	(436,210)
Debt service	313,258	6%	(2,536,140)
	<u>\$ 4,881,660</u>	<u>100.0%</u>	<u>\$ (2,763,428)</u>

**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 \$1,466,708. This represents an increase of \$537,104 in unrestricted net position from the prior year.

### Capital Assets and Debt Administration

**Capital Assets** – The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2020, totaled \$10,717,553 (net of accumulated depreciation). These assets include land, buildings, roads, machinery and equipment, park facilities, and vehicles.

Additional major capital asset transactions during the year include the following additions:

#### Governmental Activities:

• LED Sign	\$ 67,578
• 2020 Jeep Grand Cherokee	29,697
• 2020 Jeep Grand Cherokee	29,697
• Transit Van	31,199
• Drainage @ Stewart/Lewis	21,000
• HVAC	7,140
• Pump and Motor HPX200	5,490
• Restoration Service	12,021
• Traffic Island at Railroad	7,175
• Roof at old EMS/Storage Bldg	21,418
• HVAC Museum	9,130
• Water damage repair at PW Facility	21,280
• Landscaping Trailer	4,725
• 8 <sup>th</sup> /Ivey Parking Lot	66,713
• 1 <sup>st</sup> St. Stormwater and Paving	132,922
• 1494 NC Hwy 27 West Storm Drain	7,500



# TOWN OF LILLINGTON, NORTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

- Denning Parking Lot 100,000

### Business-Type Activities:

- Pump Prison Lift Station \$ 15,577
- Lift Station Panel 18,197
- Manhole Rehab 5,460
- Scada System Update 8,240
- Sewer Tap 944 South 13<sup>th</sup> Street 5,500
- Installation o Water Line Front & 16<sup>th</sup> 34,534
- Water Tap 720 North Main Street 10,100
- Water Tap 944 South 13<sup>th</sup> Street 5,000

**Town of Lillington's Capital Assets**  
**Figure 4**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 671,247	\$ 671,247	\$ 149,857	\$ 149,857	\$ 821,104	\$ 821,104
Buildings and land improvement	4,540,572	4,646,700	100,144	108,597	4,640,716	4,755,297
Infrastructure	536,379	263,735	-	-	536,379	263,735
Water system	-	-	738,729	725,210	738,729	725,210
Sewer system	-	-	2,740,452	2,887,737	2,740,452	2,887,737
Data processing equipment	958	3,258	-	-	958	3,258
Equipment and machinery	553,333	552,776	190,470	179,565	743,803	732,341
Vehicles	392,466	402,145	37,669	64,386	430,135	466,531
Construction in progress	37,777	37,777	27,500	27,500	65,277	65,277
Total	\$ 6,732,732	\$ 6,577,638	\$ 3,984,821	\$ 4,142,852	\$ 10,717,553	\$ 10,720,490

Additional information on the Town's capital assets can be found in Note 5 of the Basic Financial Statements.

**Long-Term Debt** – As of June 30, 2020, the Town's General Fund had total installment purchases of \$2,765,560. The Town's proprietary fund had no installment purchases as of June 30, 2020.

**Town of Lillington's Outstanding Debt**  
**Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Installment purchases	\$ 2,765,560	\$ 2,879,121	\$ -	\$ -	\$ 2,765,560	\$ 2,879,121
Total OPEB liability	1,128,480	835,900	-	-	1,128,480	835,900
Pension liabilities	919,358	769,927	172,540	150,546	1,091,898	920,473
Compensated absences	299,311	241,969	46,690	39,545	346,001	281,514
Total	\$ 5,112,709	\$ 4,726,917	\$ 219,230	\$ 190,091	\$ 5,331,939	\$ 4,917,008

The Town of Lillington's total debt decreased by \$113,561 during the past fiscal year.

Additional information on the Town's long-term debt can be found in Note 10 to the financial statements.

# TOWN OF LILLINGTON, NORTH CAROLINA

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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### Economic Factors and Next Year's Budgets and Rates

The Town's elected and appointed officials considered many factors when setting the fiscal year 2020-2021 budget and tax rates that support the governmental activities and fees that will be charged for the business-type activities.

In adopting the Annual Budget for fiscal year 2020-2021, the Town realized there will always be challenges. The Town is the leading catalyst responsible for initiating and delivering on three very broadly defined community, neighborhood and economic quality of life goals:

- Create, guide, and sustain the Town as being a livable, safe, and prosperous community
- Add competitive value and quality to the services and programs provided to our citizens, businesses, and visitors through prudent and accountable financial stewardship, expanding public-private partnerships, and importantly, trusting and empowering employees to improve productivity and increase innovation, and
- Seek out and create opportunities for the Town to grow while keeping the desire of our citizens to have a high level of quality services with minimum staffing and low taxes/utility rates.

### Budget Highlights for the Fiscal Year Ending June 30, 2021

**Governmental Activities** – The revenues budgeted increased slightly over the previous year's revenues due to the economic growth the Town is beginning to experience. The town will use these increases in revenues to finance programs that we currently have in place and for additional personnel needs. However, with the growth the town is experiencing, the Town's fund balance is staying solid. Budgeted expenditures in the General Fund for the 2021 year are approximately 2.93% more than the 2020 budget.

**Business-Type Activities** – The Utility Fund Annual Budget of \$2,550,000 is 19.16% more than the 2019-2020 Annual Budget of \$2,140,000. The Town did increase water and sewer fees for the 2020-2021 fiscal year. The Town also budgeted for short-lived assets and capital improvements in the 2020-2021 fiscal year due to an increased need for replacement and repairs of infrastructure.

### Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. You can also visit our website at [www.lillingtonnc.org](http://www.lillingtonnc.org). Questions concerning any of the information found in this report or requests for additional information should be directed to:

Town of Lillington  
Director of Finance  
P.O. Box 296  
Lillington, North Carolina 27546  
(910) 893-2654  
[lyoung@lillingtonnc.org](mailto:lyoung@lillingtonnc.org)



## **TOWN OF LILLINGTON**

## **BASIC FINANCIAL STATEMENTS**

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**STATEMENT OF NET POSITION**

EXHIBIT 1

JUNE 30, 2020

	Primary Government			Town of Lillington
	Governmental	Business-Type	Total	ABC Board
	Activities	Activities		
<b>ASSETS</b>				
Current Assets:				
Cash and cash equivalents	\$ 2,394,446	\$ 1,378,755	\$ 3,773,201	\$ 674,982
Taxes receivables (net)	11,949	-	11,949	-
Accrued interest receivable on taxes	1,307	-	1,307	-
Accounts receivable (net)	179,722	278,969	458,691	-
Due from other governments	604,834	-	604,834	-
Inventories	16,791	30,826	47,617	158,265
Prepaid items	-	-	-	4,394
Restricted cash and cash equivalents	112,874	139,220	252,094	110,693
Total Current Assets	3,321,923	1,827,770	5,149,693	948,334
Noncurrent Assets:				
Restricted Assets:				
Cash and cash equivalents	29,167	-	29,167	-
Total Noncurrent Restricted Assets	29,167	-	29,167	-
Capital Assets:				
Land, non-depreciable improvements, and construction in progress	709,024	177,357	886,381	27,416
Other capital assets, net of depreciation	6,023,708	3,807,464	9,831,172	475,723
Total Capital Assets	6,732,732	3,984,821	10,717,553	503,139
<b>Total Assets</b>	<b>10,083,822</b>	<b>5,812,591</b>	<b>15,896,413</b>	<b>1,451,473</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
OPEB deferrals	28,727	-	28,727	-
Pension deferrals	417,853	104,269	522,122	-
<b>Total Deferred Outflow of Resources</b>	<b>446,580</b>	<b>104,269</b>	<b>550,849</b>	<b>-</b>
<b>LIABILITIES</b>				
Current Liabilities:				
Accounts payable	201,080	103,262	304,342	338,604
Accrued interest	15,533	-	15,533	-
Customer deposits	-	139,220	139,220	-
Current portion of installment notes	216,807	-	216,807	-
Total Current Liabilities	433,420	242,482	675,902	338,604
Long-Term Liabilities:				
Total pension obligation - LEO	325,055	-	325,055	-
Net pension obligation - LGERS	594,303	172,540	766,843	-
Compensated absences	299,311	46,690	346,001	-
Total OPEB liability	1,128,480	-	1,128,480	-
Installment notes	2,548,753	-	2,548,753	-
<b>Total Liabilities</b>	<b>5,329,322</b>	<b>461,712</b>	<b>5,791,034</b>	<b>338,604</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Prepaid taxes	3,198	-	3,198	-
OPEB deferrals	106,882	-	106,882	-
Pension deferrals	29,147	3,619	32,766	-
<b>Total Deferred Inflows of Resources</b>	<b>139,227</b>	<b>3,619</b>	<b>142,846</b>	<b>-</b>
<b>NET POSITION</b>				
Net investment in capital assets	3,967,172	3,984,821	7,951,993	503,139
Restricted for:				
Capital improvements	-	-	-	110,693
Stabilization by State Statute	784,247	-	784,247	-
Streets	112,874	-	112,874	-
USDA debt service	29,167	-	29,167	-
Working Capital	-	-	-	69,972
Unrestricted	168,393	1,466,708	1,635,101	429,065
<b>Total Net Position</b>	<b>\$ 5,061,853</b>	<b>\$ 5,451,529</b>	<b>\$ 10,513,382</b>	<b>\$ 1,112,869</b>

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**STATEMENT OF ACTIVITIES**

EXHIBIT 2

YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Town of Lillington ABC Board
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
Governing body	\$ 187,816	\$ -	\$ -	\$ -	\$ (187,816)	\$ -	\$ (187,816)	\$ -
Administration	587,921	-	-	-	(587,921)	-	(587,921)	-
Finance	455,438	-	-	-	(455,438)	-	(455,438)	-
Planning and inspection	196,308	149,167	-	-	(47,141)	-	(47,141)	-
Public works	901,679	241,262	-	-	(660,417)	-	(660,417)	-
Police	1,373,614	103,651	56,250	-	(1,213,713)	-	(1,213,713)	-
Fire	612,306	120,942	6,149	-	(485,215)	-	(485,215)	-
Streets	32,058	-	241,157	191,161	400,260	-	400,260	-
Recreation	585,295	190,229	-	-	(395,066)	-	(395,066)	-
Interest on long-term debt	79,281	-	-	-	(79,281)	-	(79,281)	-
Total governmental activities (See Note 1)	5,011,716	805,251	303,556	191,161	(3,711,748)	-	(3,711,748)	-
Business-type activities:								
Water and sewer	2,380,042	2,412,071	4,889	318,686	-	355,604	355,604	-
Total business-type activities	2,380,042	2,412,071	4,889	318,686	-	355,604	355,604	-
Total primary government	\$ 7,391,758	\$ 3,217,322	\$ 308,445	\$ 509,847	(3,711,748)	355,604	(3,356,144)	-
Component unit:								
ABC Board	\$ 2,368,005	\$ 2,367,700	\$ -	\$ -	-	-	-	(305)
Total component unit	\$ 2,368,005	\$ 2,367,700	\$ -	\$ -	-	-	-	(305)
General Revenues:								
Taxes:								
Property taxes, levied for general purpose					1,946,856	-	1,946,856	-
Local option sales taxes					1,034,154	-	1,034,154	-
Other taxes					336,156	-	336,156	-
Grants and contributions not restricted to specific programs					159,000	-	159,000	-
Unrestricted investment earnings					34,709	8,530	43,239	305
Gain on insurance recoveries					30,680	-	30,680	-
Miscellaneous					52,206	14,939	67,145	-
Total general revenues					3,593,761	23,469	3,617,230	305
Change in net assets					(117,987)	379,073	261,086	-
Net position, beginning of year					5,179,840	5,072,456	10,252,296	1,112,869
Net position, ending of year					\$ 5,061,853	\$ 5,451,529	\$ 10,513,382	\$ 1,112,869

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**BALANCE SHEET –**  
**GOVERNMENTAL FUNDS**

EXHIBIT 3

YEAR ENDED JUNE 30, 2020

	Major Fund General	Total Non-Major Funds	Total Governmental Funds
<b>ASSETS</b>			
Cash and cash equivalents	\$ 2,367,539	\$ 26,907	\$ 2,394,446
Restricted cash	142,041	-	142,041
Receivables (net):			
Taxes	11,949	-	11,949
Accounts	179,722	-	179,722
Due from other governments	604,834	-	604,834
Inventories	16,791	-	16,791
<b>Total Assets</b>	<b>\$ 3,322,876</b>	<b>\$ 26,907</b>	<b>\$ 3,349,783</b>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 201,080	\$ -	\$ 201,080
<b>Total Liabilities</b>	<b>201,080</b>	<b>-</b>	<b>201,080</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes receivable	11,949	-	11,949
Prepaid taxes	3,198	-	3,198
<b>Total Deferred Inflows of Resources</b>	<b>15,147</b>	<b>-</b>	<b>15,147</b>
<b>Fund Balances:</b>			
Non-Spendable:			
Inventories	16,791	-	16,791
Restricted:			
Stabilization by State Statute	784,247	-	784,247
Streets	112,874	-	112,874
USDA debt service	29,167	-	29,167
Committed:			
Fire	-	26,907	26,907
Unassigned	2,163,570	-	2,163,570
<b>Total Fund Balances</b>	<b>3,106,649</b>	<b>26,907</b>	<b>3,133,556</b>
<b>Total Liabilities, Deferred Inflows of Resources, and Fund Balances</b>	<b>\$ 3,322,876</b>	<b>\$ 26,907</b>	
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			
Gross capital assets at historical cost		\$ 10,704,371	
Accumulated depreciation		(3,971,639)	6,732,732
Deferred outflows of resources related to pensions are not reported in the funds.			417,853
Deferred outflows of resources related to OPEB are not reported in the funds.			28,727
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and, therefore, are deferred in the funds.			1,307
Liabilities for earned revenues considered deferred inflows of resources in fund statements.			11,949
Long-term liabilities used in governmental activities are not financial uses and, therefore, are not reported in the funds.			
Gross long-term debt			(2,765,560)
Accrued interest on long-term debt			(15,533)
Total pension liability - LEOSSA			(325,055)
Total OPEB Liability			(1,128,480)
Compensated Absences			(299,311)
Net pension liability - LGERS			(594,303)
Deferred inflows of resources related to pensions are not reported in the funds			(29,147)
Deferred inflows of resources related to OPEB are not reported in the funds			(106,882)
Net position of governmental activities			<b>\$ 5,061,853</b>

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

**TOWN OF LILLINGTON, NORTH CAROLINA**

EXHIBIT 4

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2020

	<b>Major Fund General</b>	<b>Total Non-Major Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES:</b>			
Ad valorem taxes	\$ 1,943,848	\$ -	\$ 1,943,848
Other taxes and licenses	380	-	380
Unrestricted intergovernmental	1,526,213	-	1,526,213
Restricted intergovernmental	497,434	-	497,434
Permits and fees	252,818	-	252,818
Sales and services	552,433	-	552,433
Investment earnings	34,529	180	34,709
Miscellaneous	52,206	-	52,206
Total Revenues	<u>4,859,861</u>	<u>180</u>	<u>4,860,041</u>
<b>EXPENDITURES:</b>			
Current:			
Governing body	187,816	-	187,816
Administration	213,798	-	213,798
Finance	420,152	-	420,152
Planning & inspection	241,611	-	241,611
Public works	951,449	-	951,449
Police	1,174,585	-	1,174,585
Fire	434,822	-	434,822
Flatwoods fire district	134,096	-	134,096
Streets	239,193	-	239,193
Parks and Recreation	570,880	-	570,880
Debt Service:			
Principal	213,561	-	213,561
Interest and other charges	99,697	-	99,697
Total Expenditures	<u>4,881,660</u>	<u>-</u>	<u>4,881,660</u>
Revenues over expenditures	<u>(21,799)</u>	<u>180</u>	<u>(21,619)</u>
<b>OTHER FINANCING SOURCES (USES):</b>			
Proceeds from the installment purchase debt	100,000	-	100,000
Insurance recovery	30,680	-	30,680
Total Other Financing Sources (Uses)	<u>130,680</u>	<u>-</u>	<u>130,680</u>
Net change in fund balance	108,881	180	109,061
Fund balances, beginning	2,997,768	26,727	3,024,495
Fund balances, ending of year	<u>\$ 3,106,649</u>	<u>\$ 26,907</u>	<u>\$ 3,133,556</u>

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

**TOWN OF LILLINGTON, NORTH CAROLINA**

EXHIBIT 5

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES***YEAR ENDED JUNE 30, 2020*

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

Net changes in fund balances - total governmental funds	\$	109,061
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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.

Capital outlay expenditures which were capitalized	574,684	
Depreciation expense for governmental assets	<u>(419,590)</u>	155,094

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenues	3,007
--	-------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Proceeds from issuance of debt	(100,000)	
Principal payments on long-term debt	213,561	
Decrease in accrued interest payable	<u>20,416</u>	133,977

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.

Compensated absences	(57,342)	
OPEB expense	(318,914)	
Pension expense	<u>(142,870)</u>	<u>(519,126)</u>

Total changes in net position of governmental activities	<u>\$</u>	<u>(117,987)</u>
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**TOWN OF LILLINGTON, NORTH CAROLINA**

EXHIBIT 6

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET TO ACTUAL – GENERAL FUND**

YEAR ENDED JUNE 30, 2020

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
<b>REVENUES:</b>				
Ad valorem taxes	\$ 1,926,000	\$ 1,926,000	\$ 1,943,848	\$ 17,848
Other taxes and licenses	-	-	380	380
Unrestricted intergovernmental	1,279,500	1,279,500	1,526,213	246,713
Restricted intergovernmental	130,400	130,400	497,434	367,034
Permits and fees	207,000	207,000	252,818	45,818
Sales and services	531,000	531,000	552,433	21,433
Investment earnings	32,500	32,500	34,529	2,029
Miscellaneous	53,000	55,525	52,206	(3,319)
Total Revenues	4,159,400	4,161,925	4,859,861	697,936
<b>EXPENDITURES:</b>				
Current:				
Governing body	164,800	194,350	187,816	6,534
Administration	217,950	217,950	213,798	4,152
Finance	414,425	420,625	420,152	473
Planning & inspection	164,975	243,475	241,611	1,864
Public works	800,350	884,786	951,449	(66,663)
Police	1,135,775	1,202,115	1,174,585	27,530
Fire	465,850	482,975	434,822	48,153
Flatwoods fire district	125,400	144,800	134,096	10,704
Street	233,500	272,500	239,193	33,307
Recreation	580,850	617,250	570,880	46,370
Debt Service:				
Principal retirement	194,000	194,000	213,561	(19,561)
Interest and other charges	107,435	107,435	99,697	7,738
Total Expenditures	4,605,310	4,982,261	4,881,660	100,601
Revenues over (under) expenditures	(445,910)	(820,336)	(21,799)	798,537
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers from other funds	10,000	10,000	-	(10,000)
Installment purchase obligations issued	-	-	100,000	100,000
Insurance recovery	-	28,306	30,680	2,374
Appropriation of fund balance	435,910	782,030	-	(782,030)
Total Other Financing Sources (Uses)	445,910	820,336	130,680	(689,656)
Revenues and other sources over (under) expenditures and other uses	-	-	108,881	108,881
Fund balances, beginning	-	-	2,997,768	2,997,768
Fund balances, ending	\$ -	\$ -	\$ 3,106,649	\$ 3,106,649

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**STATEMENT OF NET POSITION –**  
**PROPRIETARY FUNDS**

EXHIBIT 7

*JUNE 30, 2020*

	<b>Water and Sewer Fund</b>
<b>ASSETS</b>	
Current Assets:	
Cash and cash equivalents	\$ 1,378,755
Accounts receivable (net) - billed	198,468
Accounts receivable (net) - unbilled	80,501
Inventories	30,826
Restricted cash and cash equivalents	139,220
Total Current Assets	<u>1,827,770</u>
Capital Assets:	
Land and other non-depreciable assets	177,357
Other capital assets, net of depreciation	3,807,464
Capital Assets (net)	<u>3,984,821</u>
<b>Total Assets</b>	<u>5,812,591</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>	
Contributions to pension plan	104,269
<b>Total Deferred Outflow of Resources</b>	<u>104,269</u>
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts payable and accrued liabilities	103,262
Customer deposits	139,220
Total Current Liabilities	<u>242,482</u>
Noncurrent Liabilities:	
Compensated absences	46,690
Pension liability	172,540
Total Noncurrent Liabilities	<u>219,230</u>
<b>Total Liabilities</b>	<u>461,712</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>	
Pension deferrals	3,619
<b>Total Deferred Inflows of Resources</b>	<u>3,619</u>
<b>NET POSITION</b>	
Net investment in capital assets	3,984,821
Unrestricted	1,466,708
<b>Total Net Position</b>	<u><u>\$ 5,451,529</u></u>

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

**TOWN OF LILLINGTON, NORTH CAROLINA**

EXHIBIT 8

**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION –  
PROPRIETARY FUNDS***YEAR ENDED JUNE 30, 2020*

	<b>Water and Sewer Fund</b>
<b>OPERATING REVENUE:</b>	
Charges for services	\$ 2,380,401
Water and sewer taps	25,410
Other operating revenues	11,149
Total Operating Revenues	<u>2,416,960</u>
<b>OPERATING EXPENSES:</b>	
Water and sewer operations	2,119,403
Depreciation	260,639
Total Operating Expenses	<u>2,380,042</u>
Operating Income	<u>36,918</u>
<b>NON OPERATING REVENUE (EXPENSE):</b>	
Investment earnings	8,530
Proceeds from sale of scrap	14,939
Total Nonoperating Revenue	<u>23,469</u>
Income before contributions	60,387
Capital Contribution - Golden Leaf Grant	<u>318,686</u>
Change in net position	<u>379,073</u>
Total net position, beginning	<u>5,072,456</u>
Total net position, ending	<u><u>\$ 5,451,529</u></u>

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**STATEMENT OF CASH FLOWS –**  
**PROPRIETARY FUNDS**

EXHIBIT 9

YEAR ENDED JUNE 30, 2020

	<b>Water and Sewer Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>	
Cash received from customers	\$ 2,381,428
Cash paid for goods and services	(1,571,107)
Cash paid to or on behalf of employees for services	(812,894)
Net customer deposits	3,728
Other operating revenues	11,149
Net cash flows from operating activities	12,304
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>	
Proceeds from sale of scrap	14,939
Net cash flows from noncapital financing activities	14,939
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>	
Acquisition and construction of capital assets	(102,608)
Capital Contribution - Golden Leaf Grant	318,686
Net cash flows from capital and related financing activities	216,078
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>	
Interest and dividends	8,530
Net increase in cash and cash equivalents	251,851
Cash and cash equivalents, beginning of year	1,266,124
Cash and cash equivalents, end of year	\$ 1,517,975
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	\$ 36,918
Adjustments to reconcile operating to net cash provided by operating activities:	
Depreciation	260,639
Pension expense	32,259
Bad debt expense	14,506
Changes in assets and liabilities:	
Accounts receivable	(57,123)
Inventory	(4,185)
Accounts payable and accrued liabilities	(281,583)
Customer deposits	3,728
Accrued vacation pay	7,145
Total adjustments	(24,614)
Net cash flows provided by operating activities	\$ 12,304

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



## **TOWN OF LILLINGTON**

### **NOTES TO THE FINANCIAL STATEMENTS**

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### Note 1—Summary of significant accounting policies

The accounting policies of the Town of Lillington (the "Town") and its discretely presented component unit 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 is a municipal corporation that is governed by an elected mayor and five-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

*Lillington ABC Board* – The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at the Lillington ABC Board, Lillington, North Carolina 27501.

#### B. Basis of Presentation

*Government-Wide Statements* – The statement of net position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. 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. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

Proprietary fund operating revenues, such as charges for services, result from 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. Nonoperating revenues, such as subsidies result from non-exchange transactions. Other nonoperating revenues are ancillary activities such as investment earnings.

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### Note 1—Summary of significant accounting policies (continued)

The Town reports the following major governmental fund:

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

The Town reports the following nonmajor governmental fund:

*Capital Project Fund - Fire Station #2* – This fund is used to account for the acquisition and construction of a new fire station.

The Town reports the following major enterprise funds:

*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 nonoperating 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's enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### **Note 1—Summary of significant accounting policies (continued)**

*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 because the tax is levied by Harnett County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

#### **D. Budgetary Data**

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



# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### Note 1—Summary of significant accounting policies (continued)

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

##### 1. Deposits and Investments

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

State law (G.S. 159-30(c)) authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust ("NCCMT"). The Town's and the ABC Board's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Government Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price.

##### 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 ABC Board considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

##### 3. Restricted Assets

Powell Bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through G.S. 136-41.4. U.S.D.A. loan reserve requirements are recorded as restricted cash in the General Fund. Customer deposits in the Water Sewer Fund held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

#### Governmental Activities:

##### General Fund:

Streets	\$ 112,874
U.S.D.A. loan reserve requirements	29,167
Total Governmental Fund	<u>142,041</u>

#### Business-Type Activities:

##### Water and Sewer Fund:

Customer deposits	139,220
Total Business-Type Activities	<u>139,220</u>
Total Restricted Cash	<u>\$ 281,261</u>

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### Note 1—Summary of significant accounting policies (continued)

#### 4. Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. The taxes levied for fiscal year 2020 are based on the assessed values as of January 1, 2019.

#### 5. Allowances for Doubtful Accounts

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

#### 6. Inventory and Prepaid Items

The inventories of the Town are recorded at the lower of cost or market and the ABC Board are valued at cost (first-in, first-out), which approximates market. The Town's inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

Certain payments by the ABC Board to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

#### 7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets 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>Useful Life</u>
Buildings and structures	50 years
Infrastructure	10 - 25 years
Data processing equipment	3 years
Equipment and machinery	5 - 10 years
Vehicles	6 years

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### Note 1—Summary of significant accounting policies (continued)

Property, plant, and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

	Useful Life
Building and improvements	10 - 31.5 years
Equipment	5 - 10 years
Furniture	3 - 10 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 several items that meet this criterion, contributions made to the pension plan in the 2020 fiscal year, contributions made to the OPEB plan in the 2020 fiscal year, and other pension and OPEB deferrals. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category - prepaid taxes, taxes receivable, deferrals of pension expense, and deferrals of OPEB expense.

#### 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related 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 provide for the accumulation of up to 30 days earned vacation leave with such leave being fully vested when earned. The ABC Board employees may accumulate up to 12 days earned vacation and such leave is fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### **Note 1—Summary of significant accounting policies (continued)**

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

#### **11. Net Position/Fund Balances**

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

*Fund Balances* – In the governmental fund financial statements, fund 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 included amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

*Inventories* – Portion of fund balance that is not an available resource because it represents the year-end balance of ending inventories, which are not spendable resources.

*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 USDA Debt Service* – Portion of fund balance that is restricted to comply with U.S.D.A. loan reserve requirements.

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

*Committed Fire Balance* – Portion of fund balance that will be used for the Fire and Flatwoods Fire District.

*Assigned Fund Balance* – Portion of fund balance that the Town intends to use for specific purposes.

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

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

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### **Note 1—Summary of significant accounting policies (continued)**

#### 12. Pensions

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

### **Note 2—Stewardship, compliance, and accountability**

#### 1. Significant Violations of Finance-Related Legal and Contractual Provisions

##### Noncompliance with North Carolina General Statutes

All Units of Government in North Carolina are required by G.S. 159-34 to receive and submit an annual audit report to the Local Government Commission. These reports are due by statute no later than four months after the close of the unit's fiscal year, October 31st of each year. For 2020 audit there was a three month extension to January 31, 2021 due to challenges created due to COVID19. The Town's FY2020 audit was not submitted by January 31, 2021.

#### 2. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2020, the Town's expenditures have exceeded amounts budgeted in the general fund for the following departments:

Public Works \$66,663  
Debt Service \$11,823

The over expenditures occurred due to the pre-audit and approval process not being followed properly. Management will more closely review the budget reports and pre-audit approval processes in the future to ensure compliance.

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### **Note 3—Deposits and investments**

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or the ABC Board'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 and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved Averaging Method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town or the ABC Board under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer 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. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2020, the Town's deposits had a carrying amount of \$1,765,382 and a bank balance of \$2,066,247. The carrying amount of deposits for the ABC Board was \$782,863 and the bank balance was \$829,702. At June 30, 2020, the Town's petty cash fund was \$210. The ABC Board had petty cash of \$2,812.

Of the Town's bank balance (including certificates of deposit), \$250,000 was covered by federal depository insurance and \$1,816,247 was covered by collateral under the Pooling Method. Of the ABC Board's bank balance, \$250,000 was covered by the federal depository insurance and \$579,702 was fully covered by the Pooling Method.

At June 30, 2020, the Town had \$2,288,870 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk. The ABC Board had no investments.

*Interest Rate Risk* – The Town has no formal investment policy regarding interest rate risk.

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

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

### Note 4—Allowance for doubtful accounts

The amounts presented in the balance sheet and the statement of net position for the year ended June 30, 2020 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	\$ 5,528
Accounts receivable	8,519
Total General Fund	<u>14,047</u>
Enterprise Fund:	
Accounts receivable	<u>42,586</u>
Total Enterprise Fund	<u>42,586</u>
Total	<u>\$ 56,633</u>

### Note 5—Capital assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental Activities:</b>				
Capital Assets not being Depreciated:				
Land	\$ 671,247	\$ -	\$ -	\$ 671,247
Construction in progress	<u>37,777</u>	<u>-</u>	<u>-</u>	<u>37,777</u>
Total Capital Assets not being Depreciated	<u>709,024</u>	<u>-</u>	<u>-</u>	<u>709,024</u>
Capital Assets being Depreciated:				
Buildings and structures	6,002,149	82,894	-	6,085,043
Infrastructure	514,172	307,135	-	821,307
Data processing equipment	81,012	-	-	81,012
Equipment and machinery	1,173,519	94,063	-	1,267,582
Vehicles	<u>1,649,811</u>	<u>90,592</u>	<u>-</u>	<u>1,740,403</u>
Total Capital Assets being Depreciated	<u>9,420,663</u>	<u>574,684</u>	<u>-</u>	<u>9,995,347</u>
Less Accumulated Depreciation For:				
Buildings and structures	1,355,449	189,022	-	1,544,471
Infrastructure	250,437	34,491	-	284,928
Data processing equipment	77,754	2,300	-	80,054
Equipment and machinery	620,743	93,506	-	714,249
Vehicles	<u>1,247,666</u>	<u>100,271</u>	<u>-</u>	<u>1,347,937</u>
Total Accumulated Depreciation	<u>3,552,049</u>	<u>419,590</u>	<u>-</u>	<u>3,971,639</u>
Total Capital Assets being Depreciated, net	<u>5,868,614</u>	<u>155,094</u>	<u>-</u>	<u>6,023,708</u>
Governmental Activities Capital Assets, net	<u>\$ 6,577,638</u>	<u>\$ 155,094</u>	<u>\$ -</u>	<u>\$ 6,732,732</u>

Depreciation expense of \$419,590 was charged to the administration function.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2020

**Note 5—Capital assets (continued)**

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
<b>Business-Type Activities:</b>				
Capital Assets not being Depreciated:				
Land	\$ 149,857	\$ -	\$ -	\$ 149,857
Construction in progress	27,500	-	-	27,500
Total Capital Assets not being Depreciated	177,357	-	-	177,357
Capital Assets being Depreciated:				
Buildings and structures	267,595	-	-	267,595
Water systems	1,403,697	49,634	-	1,453,331
Sewer systems	5,200,812	10,960	-	5,211,772
Equipment	529,528	42,014	-	571,542
Vehicles	290,502	-	-	290,502
Total Capital Assets being Depreciated	7,692,134	102,608	-	7,794,742
Less Accumulated Depreciation For:				
Buildings and structures	158,998	8,453	-	167,451
Water systems	678,487	36,115	-	714,602
Sewer systems	2,313,075	158,245	-	2,471,320
Equipment	349,963	31,109	-	381,072
Vehicles	226,116	26,717	-	252,833
Total Accumulated Depreciation	3,726,639	260,639	-	3,987,278
Total Capital Assets being Depreciated, net	3,965,495	(158,031)	-	3,807,464
Business-Type Activities Capital Assets, net	\$ 4,142,852	\$ (158,031)	\$ -	\$ 3,984,821

*Discretely Presented Component Unit* – Activity for the ABC Board for the year ended June 30, 2020 was as follows:

	<b>Cost</b>	<b>Accumulated Depreciation</b>	<b>Net Amount</b>
Land	\$ 27,416	\$ -	\$ 27,416
Building and improvements	675,566	210,665	464,901
Furniture and equipment	105,799	94,977	10,822
Loan costs	3,285	3,285	-
Total	\$ 812,066	\$ 308,927	\$ 503,139



# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### **Note 6—Pension plan and postemployment obligations**

#### **A. Local Governmental Employees' Retirement System**

*Plan Description* – The Town of Lillington is a participating employer in the statewide 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 (“LEO”) 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 LGERS is included in the Comprehensive Annual Financial Report (“CAFR”) for the State of North Carolina. The State’s CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

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

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

*Contributions* – Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town’s contractually required contribution rate for the year ended June 30, 2020 was 9.00% of compensation for law enforcement officers and 9.70% 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 were \$188,429 for the year ended June 30, 2020.

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

### Note 6—Pension plan and postemployment obligations (continued)

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

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

At June 30, 2020, the Town reported a liability of \$766,843 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019 (measurement date), the Town's proportion was 0.02808%, which was a decrease of 0.00008% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$332,843. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 131,303	\$ -
Changes of assumptions	124,983	-
Net difference between projected and actual earnings on pension plan investments	18,704	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	16,865
Town contributions subsequent to the measurement date	188,429	-
Total	<u>\$ 463,419</u>	<u>\$ 16,865</u>

\$188,429 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

### **Years Ending June 30,**

2021	\$ 129,151
2022	37,638
2023	70,858
2024	20,478
Total	<u>\$ 258,125</u>

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

### Note 6—Pension plan and postemployment obligations (continued)

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

Inflation	3.00%
Salary increases	3.50 to 8.10%, including inflation and productivity factor
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

<b>Asset Class</b>	<b>Target Allocation</b>	<b>Long-Term Expected Real Rate of Return</b>
Fixed income	29.0%	1.4%
Global equity	42.0%	5.3%
Real estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation protection	6.0%	4.0%
Total	100.0%	

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2020

**Note 6—Pension plan and postemployment obligations (continued)**

*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%, as well as what the Town’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

	<b>1% Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Town's proportionate share of the net pension liability (asset)	<u>\$ 1,753,910</u>	<u>\$ 766,843</u>	<u>\$ (53,610)</u>

*Pension Plan Fiduciary Net Position* – Detailed information about the pension plan’s fiduciary net position is available in the separately issued CAFR for the State of North Carolina.

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

*Plan Description* – The Town administers a public employee retirement system (the “Separation Allowance”), a single-employer defined benefit pension plan that provides retirement benefits to the Town’s qualified sworn law enforcement officers. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefits provisions to the North Carolina General Assembly.

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

Retirees receiving benefits	-
Terminated plan member entitled to but not yet receiving benefits	-
Active Plan members	<u>14</u>
Total	<u>14</u>

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

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### Note 6—Pension plan and postemployment obligations (continued)

#### 1. Summary of Significant Accounting Policies

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

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

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

Inflation	2.5%
Salary increases	3.5 - 7.35%, including inflation
Discount rate	3.26%
Cost of living adjustment	N/A

The discount rate is based on the Standard and Poor's Municipal Bond 20 Year High Grade Rate Index.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five-year period ending December 31, 2014.

**DEATHS AFTER RETIREMENT (HEALTHY):** RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 104% for males and 100% for females.

**DEATHS BEFORE RETIREMENT:** RP-2014 Employee base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.

**DEATHS AFTER RETIREMENT (BENEFICIARY):** RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 123% for males and females.

**DEATHS AFTER RETIREMENT (DISABLED):** RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 103% for males and 99% for females.

#### 2. Contributions

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2020

**Note 6—Pension plan and postemployment obligations (continued)**

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions* – At June 30, 2020, the Town reported a total pension liability of \$325,055. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the Town recognized pension expense of \$30,890.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 40,977	\$ 5,495
Changes of assumptions and other inputs	17,726	10,406
Benefit payments and administrative expenses subsequent to the measurement date	-	-
Total	<u>\$ 58,703</u>	<u>\$ 15,901</u>

\$-0- reported as deferred inflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

**Years Ending June 30,**

2021	\$ 7,690
2022	7,690
2023	7,690
2024	8,290
2025	5,022
Thereafter	6,420
	<u>\$ 42,802</u>

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.26 percent, as well as what the Town's pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.26 percent) or one percentage point higher (4.26 percent) than the current rate:

	<b>1% Decrease (2.26%)</b>	<b>Discount Rate (3.26%)</b>	<b>1% Increase (4.26%)</b>
Total pension liability	\$ 351,061	\$ 325,055	\$ 301,216

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

### Note 6—Pension plan and postemployment obligations (continued)

Total pension liability beginning balance	\$	252,247
Changes for the year:		
Service cost at end of year		14,018
Interest		9,182
Change in benefit terms		-
Difference between expected and actual experience in the measurement of the total pension liability		40,300
Changes of assumptions and other inputs		9,308
Benefit payments		-
Other changes		-
Net changes		<u>72,808</u>
Total pension liability ending balance	\$	<u>325,055</u>

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

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

#### C. Supplemental Retirement Income Plan for Law Enforcement Officers

**Plan Description** – The Town contributes to the Supplemental Retirement Income Plan (the “Plan”), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Town has also elected to have employees not engaged in law enforcement to participate in the Supplemental Retirement Income Plan. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the CAFR for the State of North Carolina. The State’s CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

**Funding Policy** – Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer’s salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2020 were \$47,438 which consisted of \$33,061 from the Town and \$14,377 from the law enforcement officers. The Town has elected to make contributions for each non-law enforcement employee. Also, the non-law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2020 were \$76,377 which consisted of \$48,332 from the Town and \$28,045 from the non-law enforcement employees.

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

### Note 6—Pension plan and postemployment obligations (continued)

#### D. Other Postemployment Benefit

##### Healthcare Benefits

*Plan Description* – Under a Town resolution, the Town provides healthcare benefits through the Healthcare Benefits Plan (the “HCB Plan”) as a single-employer defined benefit plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

*Benefits Provided* – The HCB Plan covers retirees of the Town on or after December 31, 2007 under the North Carolina Local Governmental Employees' Retirement System (the “System”) that have at least 15 years of creditable service with the Town and are actually employed by the Town at the time of retirement. The HCB Plan is available to qualified retirees at 50% to 100% until the age of 65 or until Medicare eligible, whichever is sooner. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan.

The Town will contribute toward the cost of group health insurance premiums up to the base plan only based on the years of service at retirement using the following schedule:

<b>Years of Town Service at Retirement</b>	<b>Percentage of Premium Paid by the Town</b>
15 - 19	50%
20 - 24	75%
25 - 29	85%
30 or more	100%

Also, the Town's retirees may continue dependent coverage (and pay the full premium cost) if enrolled in dependent coverage at the time of retirement. Dependent coverage terminates upon the retiree or dependent becoming eligible for Medicare or upon the retiree's death.

Membership of the HCB Plan consisted of the following at June 30, 2019, the date of the latest actuarial valuation:

Retirees and dependents receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	42
Total	43

The Town pays the cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by Town Council. The Town's members pay \$2,194, \$1,687, and \$2,792 per month for spousal, children, and family coverage, respectively. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

The Town obtains healthcare coverage through private insurers. The Town's obligation to contribute to HCB Plan is established and may be amended by the Town Council.



# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

### Note 6—Pension plan and postemployment obligations (continued)

#### Total OPEB Liability

The Town's total OPEB liability of \$1,128,480 was measured as of June 30, 2019 and was determined by an actuarial valuation as of June 30, 2019.

*Actuarial Assumptions and Other Inputs* – The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50%
Real wage growth	1.00%
Wage inflation	3.50%
Salary increases , including wage inflation	
General employees	3.50 % - 7.75%
Law enforcement employees	3.50 % - 7.35%
Discount rate	3.50%
Healthcare cost trend rates	
Pre-Medicare	7.00% for 2019 decreasing to an ultimate rate of 4.50% by 2026
Medicare	N/A

The discount rate is based on the Bond Buyer General Obligation 20-year Municipal Bond Index published at the last Thursday of June by the Bond Buyer and the municipal Bond Index Rate as of the measurement date.

#### Changes in the Total OPEB Liability

Total OPEB Liability as of June 30, 2018 (prior measurement date)	\$ 835,900
Changes for the year:	
Service cost	49,968
Interest	32,246
Change in benefit terms	261,665
Difference between expected and actual experience	(52,371)
Changes in assumptions or other inputs	15,137
Benefit payments and implicit subsidy credit	(14,065)
Net changes	292,580
Total OPEB Liability as of June 30, 2019 (measurement date)	\$ 1,128,480

Changes in assumptions and other inputs reflect a change in the discount rate from 3.89% to 3.50%.

Mortality rates were based on the RP-2014 mortality tables, with adjustments for LGERS experience and generational mortality improvements using Scale MP-2015.

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 to December 31, 2014, adopted by the LGERS Board.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

JUNE 30, 2020

**Note 6—Pension plan and postemployment obligations (continued)**

The remaining actuarial assumptions (e.g., initial per capita costs, healthcare cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2019 valuation were based on a review of recent plan experience done concurrently with the June 30, 2019 valuation.

*Sensitivity of the Total OPEB Liability to Changes in the Discount Rate* – The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated under a discount rate that is 1-percentage-point lower (2.50%) or one percentage point higher (4.50%) than the current healthcare discount rate:

	<b>1% Decrease (2.50%)</b>	<b>Current Discount Rate (3.50%)</b>	<b>1% Increase (4.50%)</b>
Total OPEB liability	\$ 1,253,587	\$ 1,128,480	\$ 1,016,539

*Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates* – The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower and 1-percentage-point higher than the current healthcare cost trend rates:

	<b>1% Decrease</b>	<b>Current</b>	<b>1% Increase</b>
Total OPEB liability	\$ 986,684	\$ 1,128,480	\$ 1,297,578

**OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB**

For the year ended June 30, 2020 the Town recognized OPEB expense of \$331,395. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 3,392	\$ 48,948
Changes of assumptions or other inputs	13,554	57,934
Benefit payments and administrative costs made subsequent to the measurement date	11,781	-
Total	<u>\$ 28,727</u>	<u>\$ 106,882</u>

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

### Note 6—Pension plan and postemployment obligations (continued)

\$11,781 reported as deferred outflows of resources related to OPEB benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of total OPEB liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to OPEB benefits will be recognized in OPEB expense as follows:

#### Reporting Period Ending June 30:

2021	\$ (12,484)
2022	(12,484)
2023	(12,484)
2024	(12,484)
2025	(12,484)
Thereafter	(27,516)
	<u>\$ (89,936)</u>

#### E. Other Employment Benefits

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

### Note 7—Deferred outflows and inflows of resources

Deferred outflows of resources is comprised of the following:

<u>Source</u>	<u>Amount</u>
LGERS pension deferrals	\$ 463,419
LEOSSA pension deferrals	58,703
OPEB deferrals	28,727
	<u>\$ 550,849</u>

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

### Note 7—Deferred outflows and inflows of resources (continued)

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

	<b>Government Wide</b>	<b>General Fund</b>
Prepaid taxes (General Fund)	\$ 3,198	\$ 3,198
Taxes receivable (General Fund)	-	11,949
OPEB deferrals	106,882	-
LGERS pension deferrals	16,865	-
LEOSSA pension deferrals	15,901	-
	<u>\$ 142,846</u>	<u>\$ 15,147</u>

### Note 8—Risk management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$5 million and \$2 million per occurrence, respectively, property coverage up to the total insurance value of the property policy, and workers' compensation coverage up to statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town carries flood insurance through the National Flood Insurance Plan ("NFIP"). Because the Town is in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency; the Town is eligible to purchase coverage of \$500,000 per structure through the NFIP. The Town also is eligible to and has purchased commercial flood insurance for another \$5,000,000 of coverage per occurrence.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$50,000 and \$10,000, respectively. The remaining employees that have access to funds are bonded under a blanket bond for \$25,000.

The Town of Lillington ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The ABC Board has property, general liability, auto liability, worker's compensation, and employee health coverage. The ABC Board also has liquor legal liability. There have been no significant reductions in insurance coverage from coverage in the prior year and settled claims have not exceeded coverage in any of the past three fiscal years.

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

### Note 9—Claims, judgments, and contingent liabilities

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

### Note 10—Long-term liabilities

The Town is indebted under installment purchase agreements as follows:

Serviced by the Governmental Funds:

The Town entered into a \$1,300,000 direct placement Installment Financing Contract with United States Department of Agriculture Rural Development on February 10, 2012 to obtain permanent financing for the construction of a community recreation center. The contract note provides for thirty annual payments of \$72,917, including interest at 3.75%, commencing February 10, 2013. The note is secured by the real and personal property under a deed of trust.

\$ 1,079,294

The Town entered into a \$262,400 direct placement Installment Financing Contract with First Bank on May 13, 2016 for the purchase of a 40 air packs. The contract note provides for ten annual payments of \$30,526, including interest at 2.85%, beginning on May 13, 2017 and ending May 13, 2026. The note is secured by the equipment purchased.

167,685

The Town entered into a \$1,500,000 direct placement Installment Financing Contract with Branch Banking and Trust Company on June 27, 2019 for the purchase and construction of facilities. The contract provides for 15 annual payments of \$100,000 beginning on June 27, 2020, including interest at 3.32%. The note is secured by the building purchased.

1,400,000

The Town entered into at \$100,000 direct placement Promissory Note with Daniel W. Denning on December 31, 2019 for the purchase and construction of Denning Parking Lot. The contract provides for 5 annual payments ranging from \$20,000 to \$21,524.69 beginning on January 10, 2020, including interest at 2.5%.

80,000

The Town entered into a \$112,000 direct placement Installment Financing Contract with Branch Banking and Trust Company on March 23, 2018 for the purchase and construction of lighting for Lillington Park. The contract note provides for three annual payments of \$39,885 beginning on May 23, 2019, including interest at 3.38%. The note is secured by the real and personal property purchased.

38,581

Total installment purchase agreements

\$ 2,765,560

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2020*

**Note 10—Long-term liabilities (continued)**

Annual debt service payments of the installment purchases as of June 30, 2020, including interest of \$894,140 for governmental activities are as follows:

<u>Years Ending June 30,</u>	<b>Governmental Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2021	\$ 216,807	\$ 94,524
2022	180,188	87,943
2023	182,846	82,598
2024	184,315	77,185
2025	166,484	66,847
2026 - 2030	739,914	261,364
2031 - 2035	655,970	155,021
2036 - 2040	303,727	60,858
2041 - 2043	135,309	7,800
Total principal payments	<u>\$ 2,765,560</u>	
Total interest payments		<u>\$ 894,140</u>

During the year ended June 30, 2020, the following changes occurred in long-term liabilities:

	<b>Balance June 30, 2019</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2020</b>	<b>Current Portion</b>
Governmental activities:					
Installment purchases (direct placement)	\$ 2,879,121	\$ 100,000	\$ 213,561	\$ 2,765,560	\$ 216,807
Compensated absences	241,969	57,483	141	299,311	-
Total OPEB liability	835,900	292,580	-	1,128,480	-
Net pension liability (LGERS)	517,680	76,623	-	594,303	-
Total pension liability (LEO)	252,247	72,808	-	325,055	-
Governmental activities Long-term liabilities	<u>\$ 4,726,917</u>	<u>\$ 599,494</u>	<u>\$ 213,702</u>	<u>\$ 5,112,709</u>	<u>\$ 216,807</u>
Business-type activities:					
Net pension liability (LGERS)	\$ 150,546	\$ 21,994	\$ -	\$ 172,540	\$ -
Compensated absences	39,545	17,114	9,969	46,690	-
Business-type activities Long-Term Liabilities	<u>\$ 190,091</u>	<u>\$ 39,108</u>	<u>\$ 9,969</u>	<u>\$ 219,230</u>	<u>\$ -</u>

Compensated absences for governmental activities have typically been liquidated in the General Fund.

General Fund assets have and are used to satisfy net pension and OPEB liabilities.

# TOWN OF LILLINGTON, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

### Note 11—Operating lease obligations

The Town has entered into operating leases for various office equipment for terms of five years. Rental expense under these agreements for the current year was \$17,473 for governmental activities.

Future minimum rental payments for the five years ending June 30 are as follows:

<u>Years Ending June 30,</u>	<b>Governmental Activities</b>
2021	\$ 18,543
2022	11,069
2023	4,028
	<u>\$ 33,640</u>

### Note 12—Net investment in capital assets

	<b>Governmental</b>	<b>Business-Type</b>
Capital assets, net of depreciation	\$ 6,732,732	\$ 3,984,821
Less long-term debt	2,765,560	-
Net investment in capital assets	<u>\$ 3,967,172</u>	<u>\$ 3,984,821</u>

### Note 13—Fund balance

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

Total fund balance - General Fund	\$ 3,106,649
Less:	
Inventories	16,791
Stabilization by State statute	784,247
Streets - Powell Bill	112,874
USDA Debt Service	29,167
Remaining fund balance	<u>\$ 2,163,570</u>

The Town's fund balance policy states that the Town shall maintain an unassigned balance in the General Fund of no less than 40% of the total projected expenditures.

# **TOWN OF LILLINGTON, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS**

*JUNE 30, 2020*

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### **Note 14—Summary disclosure of contingencies**

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

During 2020, an outbreak of a novel strain of coronavirus (“COVID-19”) emerged globally. As a result of the spread of COVID-19, economic uncertainties have arisen that could negatively impact the Town’s revenue and operations for an indeterminable time period. Other financial impacts could occur that are unknown at this time.

### **Note 15—Subsequent events**

The Town has evaluated subsequent events from the date of the balance sheet through the date of 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 the period that require disclosure.

### **Note 16—Related party transactions**

Glenn McFadden is the mayor of the Town and also the system superintendent of billings and collections for Harnett County. The Town purchases its water and sewer service from Harnett County. During the year ended June 30, 2020, the Town paid Harnett County \$628,721 for these services.

William Baker, Parks and Recreation Director, is part owner of Lillington Printing-Embroidery. During the year ended June 30, 2020, the Town purchased items totaling \$9,441 from the company.





## **TOWN OF LILLINGTON**

### **REQUIRED SUPPLEMENTARY INFORMATION**

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

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- Law Enforcement Officers' Special Separation Allowance –  
Schedule of Changes in Total Pension Liability
- Law Enforcement Officers' Special Separation Allowance –  
Schedule of Total Pension Liability as a Percentage of Covered Payroll
- Other Postemployment Benefits –  
Schedule of Changes in the Total OPEB Liability and Related Ratios
- Local Government Employees' Retirement System –  
Schedule of Proportionate Share of Net Pension Liability (Asset)
- Local Government Employees' Retirement System –  
Schedule of Contributions

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE –**  
**SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY**

SCHEDULE 1

*LAST FOUR YEARS*

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	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Beginning Pension Liability	\$ 252,247	\$ 247,578	\$ 199,350	\$ 186,216
Changes for the year:				
Service cost at end of year	14,018	15,409	12,392	12,342
Interest	9,182	7,823	7,695	6,648
Change in benefit terms	-	-	-	-
Difference between expected and actual experience in the measurement of the total pension liability	40,300	(7,685)	11,264	-
Changes of assumptions and other inputs	9,308	(10,878)	16,877	(5,856)
Benefit payments	-	-	-	-
Other changes	-	-	-	-
Net changes	72,808	4,669	48,228	13,134
Ending Pension Liability	<u>\$ 325,055</u>	<u>\$ 252,247</u>	<u>\$ 247,578</u>	<u>\$ 199,350</u>

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**REQUIRED SUPPLEMENTARY INFORMATION**

**SCHEDULE 2**

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE –**  
**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL**

*LAST FOUR YEARS*

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	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Total pension liability	\$ 325,055	\$ 252,247	\$ 247,578	\$ 199,350
Covered payroll	\$ 626,433	\$ 606,533	\$ 519,005	\$ 488,102
Total pension liability as a percentage of covered payroll	51.89%	41.59%	47.70%	40.84%

Notes to the schedules:

\*The Town of Lillington has no assets accumulated in a trust that meets criteria in paragraph 4 of GASBS 73 nor does the Plan provide pay related benefits.

\*\* This is the forth year of reporting in this format. This will eventually report more years of information.

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**OTHER POSTEMPLOYMENT BENEFITS –**  
**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS**

SCHEDULE 3

*LAST THREE YEARS*

	2020	2019	2018
<b>Total OPEB Liability</b>			
Service Cost	\$ 49,968	\$ 51,540	\$ 55,496
Interest	32,246	28,095	23,272
Changes in benefit terms	261,665	-	-
Difference between expected and actual experience	(52,371)	4,326	(3,039)
Changes of assumptions or other inputs	15,137	(30,502)	(50,322)
Benefit payments and implicit subsidy credit	(14,065)	(13,365)	(5,485)
Net change in Total OPEB Liability	292,580	40,094	19,922
Total OPEB Liability - beginning	835,900	795,806	775,884
Total OPEB Liability - ending	<u>\$ 1,128,480</u>	<u>\$ 835,900</u>	<u>\$ 795,806</u>
Covered-employee payroll	\$ 1,957,886	\$ 1,375,580	\$ 1,375,580
Total OPEB Liability as a percentage of covered-employee payroll	57.64%	60.77%	57.85%

**Note to Schedule**

*Changes of Assumptions* – Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

<u>Fiscal Year</u>	<u>Rate</u>
2018	3.56%
2019	3.89%
2020	3.50%

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM –**  
**SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (ASSET)**

SCHEDULE 4

*LAST SEVEN FISCAL YEARS*

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Town of Lillington's proportion of the net pension liability (asset) (%)	0.02808%	0.02816%	0.02776%	0.02707%	0.02727%	0.02479%	0.02675%
Town of Lillington's proportion of the net pension liability (asset) (\$)	\$ 766,843	\$ 668,226	\$ 424,096	\$ 574,516	\$ 122,386	\$ (157,816)	\$ 298,935
Town of Lillington's covered payroll	\$ 1,828,061	\$ 1,566,394	\$ 1,551,012	\$ 1,393,097	\$ 1,325,081	\$ 1,265,281	\$ 1,222,812
Town of Lillington's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	41.95%	42.66%	27.34%	41.24%	9.24%	( 12.47%)	24.45%
Plan fiduciary net position as a percentage of the total pension liability**	90.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

\* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.  
Information is not available for years prior to those presented.

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM –**  
**SCHEDULE OF CONTRIBUTIONS**

SCHEDULE 5

*LAST SEVEN FISCAL YEARS*

	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Contractually required contribution	\$ 188,429	\$ 147,000	\$ 122,060	\$ 94,893	\$ 95,061	\$ 95,194	\$ 90,534
Contributions in relation to the contractually required contribution	188,429	147,000	122,060	94,893	95,061	95,194	90,534
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Town of Lillington's covered payroll	\$ 2,041,860	\$ 1,828,061	\$ 1,566,394	\$ 1,551,012	\$ 1,393,097	\$ 1,325,081	\$ 1,265,281
Contributions as a percentage of covered payroll	9.23%	8.04%	7.79%	6.12%	6.82%	7.17%	7.14%

\* Information is not available for years prior to those presented.



## **TOWN OF LILLINGTON**

## **INDIVIDUAL FUND SCHEDULES**

**TOWN OF LILLINGTON, NORTH CAROLINA**

SCHEDULE 6

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET TO ACTUAL – GENERAL FUND**

YEAR ENDED JUNE 30, 2020

	Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
Ad Valorem Taxes:			
Taxes	\$ 1,921,000	\$ 1,937,482	\$ 16,482
Penalties and interest	5,000	6,366	1,366
Total Ad Valorem Taxes	1,926,000	1,943,848	17,848
Other Taxes and Licenses:			
Vehicle licenses	-	10	10
Privilege licenses	-	370	370
Total Other Taxes and Licenses	-	380	380
Unrestricted Intergovernmental:			
Local option sales taxes	895,000	1,034,154	139,154
Utility franchise tax	320,000	317,618	(2,382)
Beer and wine tax	14,500	15,441	941
ABC profit distribution	50,000	159,000	109,000
Total Unrestricted Intergovernmental	1,279,500	1,526,213	246,713
Restricted Intergovernmental:			
Powell Bill allocation	101,000	241,157	140,157
Governor's Highway Safety	10,000	25,783	15,783
Harnett County donation	11,000	27,513	16,513
On-behalf of payments - Fire and Rescue	6,400	6,149	(251)
FEMA	-	191,161	191,161
Solid waste disposal tax	2,000	2,717	717
Controlled substance tax	-	2,954	2,954
Total Restricted Intergovernmental	130,400	497,434	367,034
Permits and Fees:			
Officer fees	102,000	103,651	1,651
Building inspection fees	100,000	137,057	37,057
Zoning permits	5,000	12,110	7,110
Total Permits and Fees	207,000	252,818	45,818
Sales and Services:			
Garbage fees	210,000	241,262	31,262
Building rent	18,000	13,035	(4,965)
Fire/Rescue service fees	117,500	120,942	3,442
Recreation department fees	185,500	177,194	(8,306)
Total Sales and Services	531,000	552,433	21,433
Investment Earnings	32,500	34,529	2,029



**TOWN OF LILLINGTON, NORTH CAROLINA**

SCHEDULE 6

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET TO ACTUAL – GENERAL FUND (CONTINUED)**

YEAR ENDED JUNE 30, 2020

	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES (continued):</b>			
Miscellaneous:			
Christmas Parade	\$ 1,000	\$ 800	\$ (200)
Miscellaneous	4,525	29,438	24,913
Miscellaneous Donations	50,000	21,968	(28,032)
Total Miscellaneous	55,525	52,206	(3,319)
Total Revenues	4,161,925	4,859,861	697,936
<b>EXPENDITURES:</b>			
Governing Body:			
Salaries and employee benefits	-	54,516	-
Other operating expenditures	-	133,300	-
Total Governing Body	194,350	187,816	6,534
Administration:			
Salaries and employee benefits	-	191,745	-
Other operating expenditures	-	22,053	-
Total Administration	217,950	213,798	4,152
Finance:			
Salaries and employee benefits	-	155,205	-
Other operating expenditures	-	264,947	-
Total Finance	420,625	420,152	473
Planning and Inspection:			
Salaries and employee benefits	-	107,397	-
Other operating expenditures	-	66,637	-
Capital outlay	-	67,577	-
Total Planning and Inspection	243,475	241,611	1,864
Public Works:			
Salaries and employee benefits	-	109,918	-
Utilities	-	200,685	-
Maintenance and repair	-	146,976	-
Contracted services	-	263,050	-
Capital outlay	-	163,727	-
Other operating expenditures	-	67,093	-
Total Public Works	884,786	951,449	(66,663)

**TOWN OF LILLINGTON, NORTH CAROLINA**

SCHEDULE 6

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET TO ACTUAL – GENERAL FUND (CONTINUED)**

YEAR ENDED JUNE 30, 2020

	Budget	Actual	Variance Positive (Negative)
<b>EXPENDITURES (continued):</b>			
Police:			
Salaries and employee benefits	\$ -	\$ 988,881	\$ -
Vehicle maintenance	-	17,561	-
Capital outlay	-	59,393	-
Other operating expenditures	-	108,750	-
Total Police	1,202,115	1,174,585	27,530
Fire:			
Salaries and employee benefits	-	298,815	-
Vehicle maintenance	-	34,506	-
Other operating expenditures	-	101,501	-
Total Fire	482,975	434,822	48,153
Flatwoods Fire District:			
Salaries and employee benefits	-	38,971	-
Vehicle maintenance	-	28,740	-
Equipment maintenance	-	3,033	-
Other operating expenditures	-	38,701	-
Capital outlay	-	24,651	-
Total Flatwoods Fire District	144,800	134,096	10,704
Streets:			
Powell Bill	-	32,058	-
Capital outlay	-	207,135	-
Total Streets	272,500	239,193	33,307
Parks and Recreation:			
Salaries and employee benefits	-	432,669	-
Repairs and maintenance	-	16,044	-
Other operating expenditures	-	69,968	-
Capital Outlay	-	52,199	-
Total Parks and Recreation	617,250	570,880	46,370
Debt Service:			
Principal retirement	194,000	213,561	(19,561)
Interest and other charges	107,435	99,697	7,738
Total Debt Service	301,435	313,258	(11,823)
Total Expenditures	4,982,261	4,881,660	100,601
Revenues over (under) expenditures	(820,336)	(21,799)	798,537

**TOWN OF LILLINGTON, NORTH CAROLINA**

SCHEDULE 6

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET TO ACTUAL – GENERAL FUND (CONTINUED)**

YEAR ENDED JUNE 30, 2020

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	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers from (to) other funds	\$ 10,000	\$ -	\$ (10,000)
Installment obligations issued	-	100,000	100,000
Insurance recovery	28,306	30,680	2,374
Appropriation of fund balance	782,030	-	(782,030)
Total Other Financing Sources (Uses)	820,336	130,680	(689,656)
Revenues and other financing sources over expenditures and other financing uses	<u>\$ -</u>	<u>108,881</u>	<u>\$ 108,881</u>
Fund balances, beginning		2,997,768	
Fund balances, end of year		<u>\$ 3,106,649</u>	

**TOWN OF LILLINGTON, NORTH CAROLINA**

SCHEDULE 7

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –  
BUDGET TO ACTUAL (NON-GAAP) – CAPITAL PROJECT FUND – FIRE STATION NUMBER 2**

FROM INCEPTION TO YEAR ENDED JUNE 30, 2020

	<b>Project Authorization</b>	<b>Prior Year</b>	<b>Actual Current Year</b>	<b>Total to Date</b>	<b>Variance Positive (Negative)</b>
<b>REVENUES:</b>					
Unrestricted:					
Interest on investments	\$ -	\$ 503	\$ 180	\$ 683	\$ 683
Total Revenues	-	503	180	683	683
<b>EXPENDITURES:</b>					
Planning and design	50,500	24,276	-	24,276	26,224
Total Expenditures	50,500	24,276	-	24,276	26,224
Revenues under expenditures	(50,500)	(23,773)	180	(23,593)	26,907
<b>OTHER FINANCING SOURCES:</b>					
Transfer from General Fund	50,500	50,500	-	50,500	-
Total Other Financing Sources	50,500	50,500	-	50,500	-
Revenues and other sources over expenditures	\$ -	\$ 26,727	180	\$ 26,907	\$ 26,907
Fund balance, beginning of year			26,727		
Fund balance, end of year			\$ 26,907		

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**SCHEDULE OF REVENUES AND EXPENDITURES –**  
**BUDGET TO ACTUAL (NON-GAAP) – WATER AND SEWER FUND**

SCHEDULE 8

YEAR ENDED JUNE 30, 2020

	Budget	Actual	Variance Positive (Negative)
<b>REVENUES:</b>			
Water sales	\$ 917,000	\$ 1,003,635	\$ 86,635
Sewer charges	1,021,000	1,129,106	108,106
Service fees	45,000	54,018	9,018
Water capacity fees	15,000	57,586	42,586
Sewer capacity fees	15,000	136,056	121,056
Total	2,013,000	2,380,401	367,401
Water and sewer taps	4,500	25,410	20,910
Other Operating Revenues:			
Late fees and reconnections	6,500	6,260	(240)
FEMA	-	4,889	4,889
Total Other Operating Revenues	6,500	11,149	4,649
Total Operating Revenues	2,024,000	2,416,960	392,960
Nonoperating Revenues:			
Proceeds from sale of scrap	-	14,939	14,939
Golden Leaf Grant -Capital Contribution	144,800	318,686	173,886
Interest earnings	7,000	8,530	1,530
Total Nonoperating Revenue	151,800	342,155	190,355
Total Revenues	2,175,800	2,759,115	583,315
<b>EXPENDITURES:</b>			
Water & Sewer Operations			
Salaries and employee benefits	-	736,537	-
Maintenance	-	118,194	-
Water purchases	-	339,788	-
Wastewater treatment	-	502,010	-
Capital outlay	-	102,608	-
Other operating expenditures	-	376,109	-
Total Expenditures	2,489,800	2,175,246	314,554
<b>OTHER FINANCING SOURCES (USES):</b>			
Appropriation of fund balance	314,000	-	(314,000)
Total Other Financing Sources (Uses)	314,000	-	(314,000)
Revenues and other sources over expenditures and other uses	\$ -	\$ 583,869	\$ 583,869

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**SCHEDULE OF REVENUES AND EXPENDITURES –**  
**BUDGET TO ACTUAL (NON-GAAP) – WATER AND SEWER FUND (CONTINUED)**

SCHEDULE 8

YEAR ENDED JUNE 30, 2020

	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		\$ 583,869	
Reconciling items:			
Capital outlay		102,608	
Depreciation		(260,639)	
Decrease in deferred outflow of resources - pension		(12,515)	
Increase in deferred inflow of resources - pension		2,250	
Decrease in pension liability		(21,994)	
Bad debt expense		(14,506)	
Total Reconciling Items		(204,796)	
Change in net position		\$ 379,073	



## **TOWN OF LILLINGTON**

### **OTHER SCHEDULES**

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This section contains additional information required on property taxes.

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

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**SCHEDULE OF AD VALOREM TAXES RECEIVABLE – GENERAL FUND**

SCHEDULE 9

YEAR ENDED JUNE 30, 2020

<b>Fiscal Year</b>	<b>Uncollected Balance June 30, 2019</b>	<b>Additions</b>	<b>Collections And Credits</b>	<b>Uncollected Balance June 30, 2020</b>
2019-2020	\$ -	\$ 1,938,126	\$ 1,930,642	\$ 7,484
2018-2019	3,285	-	2,237	1,048
2017-2018	1,394	-	456	938
2016-2017	1,370	-	133	1,237
2015-2016	1,684	-	331	1,353
2014-2015	1,036	-	11	1,025
2013-2014	1,316	-	38	1,278
2012-2013	1,976	-	6	1,970
2011-2012	831	-	28	803
2010-2011	501	-	160	341
2009-2010	356	-	356	-
	<u>\$ 13,749</u>	<u>\$ 1,938,126</u>	<u>\$ 1,934,398</u>	<u>17,477</u>
Less allowance for uncollectible accounts:				
General Fund				<u>5,528</u>
Ad valorem taxes receivable - net				<u>\$ 11,949</u>
<u>Reconcilement with revenues:</u>				
Ad valorem taxes - General Fund				<u>\$ 1,943,848</u>
Reconciling items:				
Miscellaneous				(9,094)
Taxes written off				<u>(356)</u>
Subtotal				<u>(9,450)</u>
Total collections and credits				<u>\$ 1,934,398</u>



**TOWN OF LILLINGTON, NORTH CAROLINA**  
**ANALYSIS OF CURRENT TAX LEVY – TOWN-WIDE LEVY**

SCHEDULE 10

YEAR ENDED JUNE 30, 2020

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current:					
Real and personal property	\$ 377,115,769	\$ 0.52	\$ 1,961,002	\$ 1,707,209	\$ 253,793
Penalties	-	-	3,040	3,040	-
Total	377,115,769	0.52	1,964,042	1,710,249	253,793
Discoveries:					
Current year taxes	122,692	0.52	638	638	-
Penalties	-		134	134	-
Abatements	(26,688)		(26,688)	(26,688)	-
Total	\$ 377,211,773		1,938,126	1,684,333	253,793
Net levy			1,938,126	1,684,333	253,793
Uncollected taxes at June 30, 2020			(7,484)	(7,484)	-
Current year's taxes collected			\$ 1,930,642	\$ 1,676,849	\$ 253,793
Current levy collection percentage			99.61%	99.56%	100%



**TOWN OF LILLINGTON**

**COMPLIANCE SECTION**

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

To the Honorable Mayor and  
Town Commissioners  
Town of Lillington, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Lillington, North Carolina (the "Town"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated April 5, 2021. Our report includes a reference to another auditor, who audited the financial statements of the Town of Lillington Alcoholic Beverage Control Board (the "ABC Board"), as described in our report on the Town's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported separately by the other auditor. The financial statements of the Board were not audited in accordance with *Government Auditing Standards*.

**Internal Control over Financial Reporting**

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses.

We consider the following deficiencies described in the accompanying schedule of findings and responses to be material weaknesses: 2020-001 and 2020-002.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statement. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and responses as item 2020-003 and 2020-004.

### **Town's Response to Findings**

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

### **Purpose of this Report**

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

Cheryl Bekaert LLP

Raleigh, North Carolina  
April 5, 2021

# TOWN OF LILLINGTON, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES

YEAR ENDED JUNE 30, 2020

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### SECTION I – Summary of Auditor’s Results

#### Financial Statements

Type of auditor’s report issued: Unmodified

Internal control over financial reporting:

- |  |                   |                            |
|--|-------------------|----------------------------|
| - Material weakness identified   | <u>  X  </u> Yes  | <u>      </u> No           |
| - Significant deficiency identified that is not considered to be a material weakness | <u>      </u> Yes | <u>  X  </u> None reported |
| - Noncompliance material to financial statements noted                               | <u>      </u> Yes | <u>  X  </u> No            |

### SECTION II – Financial Statement Findings

#### Material Weakness

##### **Finding 2020-001: Segregation of Duties**

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

Condition: There is a lack of segregation of duties among Town personnel.

Effect: Transactions could be mishandled.

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

Recommendation: The duties should be separated as much as possible and alternative controls should be used to compensate for lack of separation. In order to achieve greater segregation, the governing board should consider restructuring employee responsibilities and or adding personnel when financially feasible.

Management Response: The Town agrees with this finding and continues to improve controls as much as possible with the limited number of staff available.

# **TOWN OF LILLINGTON, NORTH CAROLINA**

## **SCHEDULE OF FINDINGS AND RESPONSES (CONTINUED)**

*YEAR ENDED JUNE 30, 2020*

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### **Finding 2020-002: Financial Reporting**

Criteria: Management should have sufficient controls over financial reporting such that the financial statements are materially correct without proposed audit adjustments.

Condition: During the audit several material audit adjustments were proposed to management. Auditor also prepared draft financial statements.

Effect: Management agreed with and posted the proposed audit adjustments and draft financial statements.

Recommendation: Management should continue efforts to improve the accuracy of year-end financial reporting by reviewing the procedures that have been implemented and make appropriate changes as needed.

Management Response: Management agrees with this finding and continues to review and implement additional month and year end closing procedures to ensure the accuracy of its financial reporting.

### **Nonmaterial – Noncompliance**

#### **Finding 2020-003 Budget Violations**

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

Condition: Expenditures over budget occurred in the General Fund for the Public Works Department and Debt Service.

Effect: Expenditures were incurred that had not been budgeted.

Cause: Management overlooked the need for a budget amendment related to issuance of debt for a parking lot and the related capital outlay and debt payment that occurred in the current year.

Recommendation: The budget should be monitored closely to ensure that appropriations are available before expenditures are incurred.

Management Response Management agrees with this finding. We will monitor the budget and expenses and make amendments accordingly.

#### **Finding 2020-004 Untimely Audit Submission**

Criteria: The Town should have year-end closeout procedures are performed timely and that auditable financial statements can be prepared in a timeframe that will allow the audit to be completed within 120 days after year-end.

Condition: The Town had not submitted the necessary information to the actuary who computes the OPEB liability on time.

Effect: The OPEB report was not received until March of 2021 and FY2020 audit not completed by the January 31, 2021 extended deadline.

Recommendation: We recommend that the Town add the submission of OPEB census information to the actuary to their list of closeout procedures.

Management Response: Management agrees with this finding.



## TOWN OF LILLINGTON

### CORRECTIVE ACTION PLAN

#### **Material Weakness**

##### **Finding 2020-001: Segregation of Duties**

Name of Contact Person: Joseph Jefferies, Town Manager

Corrective Action: The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. As it becomes feasible, additional staff will be added and duties will be restructured in order to improve segregation of duties.

Proposed Completion Date: The above procedures have been implemented to the extent feasible and additional implementation will be made as they are economically feasible.

##### **Finding 2020-002: Segregation of Duties**

Name of Contact Person: Joseph Jefferies, Town Manager

Corrective Action: The finance officer has begun the process of implementing new month and year-end closing procedures to ensure the accuracy of the statements.

Proposed Completion Date: The procedure the finance officer implemented has improved the accuracy of the statements. However, the finance officer continues to review and implement additional procedures for the month and year-end closing process. This is an ongoing process to improve the efficiency and accuracy of the financial reporting process.

#### **Nonmaterial Noncompliance**

##### **Finding 2020-003: Budgetary Violations**

Name of Contact Person: Joseph Jefferies, Town Manager

Corrective Action: The finance officer has begun the process of implementing new procedures related to issuance of debt and will have reviewed by auditors prior to issuance.

Proposed Completion Date: The procedure the finance officer implemented is an ongoing process to improve the efficiency and accuracy of the financial reporting process.

##### **Finding 2020-004: Untimely Audit Submission**

Name of Contact Person: Joseph Jefferies, Town Manager

Corrective Action: The finance officer is aware that the OPEB report must now be done annually and has included as part of closeout procedures.

Proposed Completion Date: The procedure the finance officer implemented will be ongoing and the information for the 2021 OPEB report has already been submitted to actuary

**TOWN OF LILLINGTON, NORTH CAROLINA**  
**SUMMARY OF PRIOR YEAR FINDINGS**

*YEAR ENDED JUNE 30, 2020*

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**Finding No. 2019-001:** Repeated; not corrected

**Finding No. 2019-002:** Repeated; not corrected