

TOWN OF MAGNOLIA
MAGNOLIA, NORTH CAROLINA

ANNUAL FINANCIAL REPORT
Year Ended June 30, 2020

Mayor

Gwendolyn Vann

Town Manager

Kimberly Miles

Commissioners

Denver McMahan

Elvenia Wilson

Kimberly Miles

Charles Rogers

Ruth Quinn

Finance Officer

Barbara Jones

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

Exhibit

	Financial Section:	Page(s)
	Independent Auditor's Report	1-3
	Management's Discussion and Analysis	4-9
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position	10
2	Statement of Activities	11
	Fund Financial Statements:	
3	Balance Sheet - Governmental Funds	12
4	Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	13 - 14
5	Statement of Revenues, Expenditures, and Changes in Fund Balances - Annual Budget and Actual - General Fund	15
6	Statement of Fund Net Position - Proprietary Fund	16
7	Statement of Revenues, Expenses, and Changes in Fund Net Position - Proprietary Fund	17
8	Statement of Cash Flows - Proprietary Fund	18 - 19
	Notes to the Financial Statements	20 - 37
	Required Supplemental Financial Data:	
	Schedule of the Proportionate Share of the Net Pension Asset – Local Government Employees’ Retirement System	38
	Schedule of Contributions – Local Government Employees’ Retirement System	39
	Schedule of Changes in Total Pension Liability - Law Enforcement Officers' Special Separation Allowance	40
	Schedule of Total Pension Liability as a Percentage of Covered Payroll	41

Individual Fund Statements and Schedules:

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - General Fund	42 - 45
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Water & Sewer Fund	46 - 47
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Water CDBG Project	48
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual - Sewer CDBG Project	49

Other Schedules:

Schedule of Ad Valorem Taxes Receivable	50
Analysis of Current Year Tax Levy - Town - Wide Levy	51

Compliance Section:

Report on Internal Control Over Financial Reporting and on Compliance and other matters Based on Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	52 - 53
Schedule of Findings and Responses	54 - 55
Corrective Action Plan	57- 58

FINANCIAL SECTION



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Independent Auditor's Report

To the Honorable Mayor
and Members of the Board of Commissioners
Magnolia, North Carolina

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

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

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Magnolia, North Carolina. The individual fund statements, budgetary schedules, and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

budgetary schedule, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2021 on our consideration of the Town of Magnolia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of 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 Magnolia's internal control over financial reporting and compliance.

Thompson, Price, Scott, Adams & Co., PA

Wilmington, North Carolina

May 26, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the Town of Magnolia (the "Town"), we offer readers of the Town of Magnolia's financial statements this narrative overview and analysis of the financial activities of the Town of Magnolia 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.

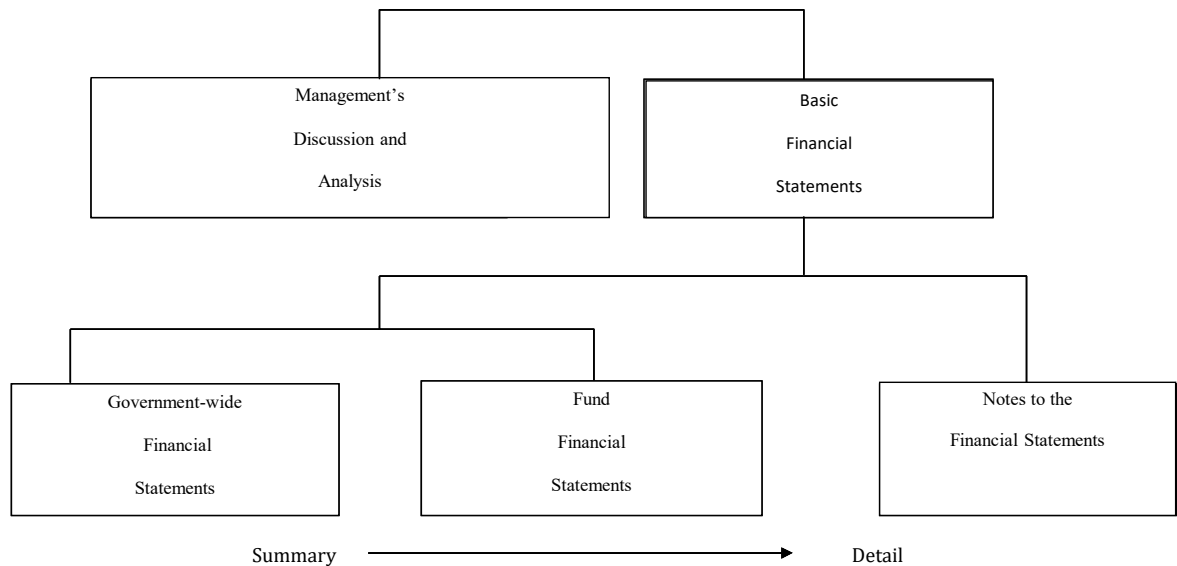
Financial Highlights

- The assets and deferred outflows of resources of the Town of Magnolia exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$6,664,405 (*net position*).
- The Town's total net position decreased by \$261,638, due to less revenue in both governmental-type activities and business-type activities.
- As of the close of the current fiscal year, the Town of Magnolia's governmental funds reported combined ending fund balances of \$613,542 with a net decrease of \$48,156 in fund balance. Approximately 51% percent of this total amount, or \$312,550 is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$300,992, or 43% of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

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

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

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

Government-Wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

The Town of Magnolia adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – Town of Magnolia has one proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Magnolia uses an enterprise fund to account for its water and sewer activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

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

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 38 of this report.

Interdependence with Other Entities- The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Government-Wide Financial Analysis

**Town of Magnolia's Net Position
Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 702,705	\$ 748,884	\$ 38,637	\$ 203,502	\$ 741,342	\$ 952,386
Capital assets	309,049	292,645	5,893,223	5,948,562	6,202,272	6,241,207
Deferred outflows of resources	41,578	34,026	18,761	18,046	60,339	52,072
Total assets and deferred outflows of resources	1,053,332	1,075,555	5,950,621	6,170,110	\$ 7,003,953	7,245,665
Long-term liabilities outstanding	167,285	170,580	105,506	109,670	272,791	280,250
Other liabilities	32,212	24,604	30,398	9,273	62,610	33,877
Deferred inflows of resources	3,832	4,927	314	568	4,146	5,495
Total liabilities and deferred inflows of resources	203,329	200,111	136,218	119,511	339,547	319,622
Net position:						
Net investment in capital assets	206,260	169,856	5,877,244	5,917,409	6,083,504	6,087,265
Restricted	312,550	230,174	-	-	312,550	230,174
Unrestricted	331,192	475,414	(62,841)	133,190	268,351	608,604
Total net position	\$ 850,002	\$ 875,444	\$ 5,814,403	\$ 6,050,599	\$ 6,664,405	\$ 6,926,043

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Magnolia exceeded liabilities and deferred inflows by \$6,664,405 as of June 30, 2020. The Town's net position decreased by \$261,638 for the fiscal year ended June 30, 2020. However, the largest portion \$6,063,504 (91%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Magnolia uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Magnolia's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Magnolia's net position, \$312,550 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$288,351 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 88.61%.

Town of Magnolia's Changes in Net Position

Figure 3

	Governmental Activities		Business Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 103,235	\$ 124,268	\$ 328,321	\$ 372,804	\$ 431,556	\$ 497,072
Operating grants and contributions	34,469	35,378	-	-	34,469	35,378
Capital grants and contributions	-	-	-	688,287	-	688,287
General revenues:						
Property taxes	170,318	176,413	-	-	170,318	176,413
Other taxes	268,362	298,982	-	-	268,362	298,982
Grants and contributions not restricted to specific programs	-	-	-	-	-	-
Other	70,949	120,085	43,437	18,234	114,386	138,319
Total revenues	647,333	755,126	371,758	1,079,325	1,019,091	1,834,451
Expenses:						
General government	218,481	203,726	-	-	218,481	203,726
Public safety	235,289	220,011	-	-	235,289	220,011
Cultural and recreation	96,793	89,150	-	-	96,793	89,150
Transportation	72,866	9,856	-	-	72,866	9,856
Environmental protection	44,053	88,462	-	-	44,053	88,462
Interest on long-term debt	5,293	7,500	-	-	5,293	7,500
Water and sewer	-	-	607,954	626,867	607,954	626,867
Total expenses	672,775	618,705	607,954	626,867	1,280,729	1,245,572
Increase in net position before transfers	(25,442)	136,421	(236,196)	452,458	(261,638)	588,879
Transfers	-	-	-	-	-	-
Increase (decrease) in net position	(25,442)	136,421	(236,196)	452,458	(261,638)	588,879
Net position, July 1	875,444	739,023	6,050,599	6,664,405	6,926,043	7,403,428
Net position, June 30	\$ 850,002	\$ 875,444	\$ 5,814,403	\$ 7,116,863	\$ 6,664,405	\$ 7,992,307

Governmental activities. Governmental activities decreased the Town's net position by \$25,442, thereby accounting for 10% of the total decrease in the net position of the Town of Magnolia. Key elements of this decrease are as follows:

- Decreased town revenues.
- Increased town expenses.

Business-type activities. Business-type activities decreased the Town of Magnolia's net position by \$236,196 accounting for 90% of the total decrease in the government's net position. Key elements of this decrease are as follows:

- Decreased town revenues.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Magnolia. At the end of the current fiscal year, fund balance unassigned in the General Fund was \$300,992 while total fund balance reached \$613,542. The Town currently has an unassigned fund balance of 43% of general fund expenditures, while total fund balance represents 88% of the same amount.

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.

Proprietary Funds. The Town of Magnolia'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 \$(62,841). The total change in net position was an decrease of \$236,196. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town of Magnolia's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Magnolia's investment in capital assets for its governmental and business-type activities as of June 30, 2020 totals \$6,202,272 (net of accumulated depreciation). These assets include buildings, land, water/sewer systems, machinery and equipment, and vehicles.

Major capital asset transactions during the year include the following:

- Water CDBG Project was completed.
- Sewer CDBG Project was started.

Town of Magnolia's Capital Assets (net of depreciation)

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 25,144	\$ 25,144	\$ 13,600	\$ 13,600	\$ 38,744	\$ 38,744
Buildings and system	279,242	262,372	-	-	279,242	262,372
Substations, lines, and related equipment	-	-	5,790,749	3,133,644	5,790,749	3,133,644
Machinery and equipment	4,660	5,129	70,254	50,110	74,914	55,239
Construction in progress	-	-	18,620	2,751,208	18,620	2,751,208
Total	\$ 309,046	\$ 292,645	\$ 5,893,223	\$ 5,948,562	\$ 6,202,269	\$ 6,241,207

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

Long-term Debt. The Town of Magnolia's total debt decreased by \$22,313 during the current fiscal year, due to loan payments.

**Outstanding Debt
Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Installment debt	\$ 102,789	\$ 122,789	\$ 15,979	\$ 31,153	\$ 118,768	\$ 153,942
Compensated Absences	4,554	3,930	8,307	5,291	12,861	9,221
Total	<u>\$ 107,343</u>	<u>\$ 122,789</u>	<u>\$ 24,286</u>	<u>\$ 31,153</u>	<u>\$ 131,629</u>	<u>\$ 163,163</u>

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue up to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Magnolia is \$2,344,812.

Additional information regarding the Town of Magnolia's long-term debt can be found in the notes of the Basic Financial Statements.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town.

- Unemployment rates remained low.
- The Town plan's to start construction on the new Sewer Capital Project in the fiscal year 2021.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Town Clerk, Town of Magnolia, Magnolia, NC 28453. You can also call 910-289-3205 for more information.

BASIC FINANCIAL STATEMENTS

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

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 333,201	\$ -	\$ 333,201
Restricted cash	150,714	58,854	209,568
Receivables (net)	153,274	45,299	198,573
Internal balances	65,516	(65,516)	-
Capital assets:			
Land, improvements, and construction in progress	25,144	32,220	57,364
Other capital assets, net of depreciation	283,905	5,861,003	6,144,908
Total capital assets	309,049	5,893,223	6,202,272
Total assets	1,011,754	5,931,860	6,943,614
DEFERRED OUTFLOWS OF RESOURCES	41,578	18,761	60,339
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	32,212	30,398	62,610
Current portion of long-term liabilities	24,554	24,286	48,840
Long-term liabilities:			
Liabilities payable from restricted assets:			
Deposits	-	58,854	58,854
Net pension liability	41,538	22,366	63,904
Total pension liability	18,404	-	18,404
Due in more than one year	82,789	-	82,789
Total liabilities	199,497	135,904	335,401
DEFERRED INFLOWS OF RESOURCES	3,832	314	4,146
NET POSITION			
Net investment in capital assets	206,260	5,877,244	6,083,504
Restricted for:			
Stabilization by State statute	161,836	-	161,836
Streets	150,714	-	150,714
Unrestricted (deficit)	331,192	(62,841)	268,351
Total net position	\$ 850,002	\$ 5,814,403	\$ 6,664,405

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

Program Revenues					Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 218,481	\$ 595	\$ -	\$ -	\$ (217,886)	\$ -	\$ (217,886)
Public safety	235,289	2,512	-	-	(232,777)	-	(232,777)
Cultural and recreation	96,793	-	-	-	(96,793)	-	(96,793)
Transportation	72,866	-	34,469	-	(38,397)	-	(38,397)
Environmental protection	44,053	100,128	-	-	56,075	-	56,075
Interest on long-term debt	5,293	-	-	-	(5,293)	-	(5,293)
Total governmental activities	672,775	103,235	34,469	-	(535,071)	-	(535,071)
Business-type activities:							
Water	607,954	328,321	-	-	-	(279,633)	(279,633)
Total business-type activities	607,954	328,321	-	-	-	(279,633)	(279,633)
Total Primary Government	\$ 1,280,729	\$ 431,556	\$ 34,469	\$ -	-	(279,633)	(814,704)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					170,318	-	170,318
Local option sales tax					268,362	-	268,362
Other taxes and licenses					36,563	-	36,563
Investment earnings, unrestricted					178	-	178
Miscellaneous, unrestricted					34,208	43,437	77,645
Total general revenues not including transfers					509,629	43,437	553,066
Transfers					-	-	-
Total general revenues and transfers					509,629	43,437	553,066
Change in net position					(25,442)	(236,196)	(261,638)
Net position, beginning					875,444	6,050,599	6,926,043
Net position, ending					\$ 850,002	\$ 5,814,403	\$ 6,664,405

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

	<u>General Fund</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 333,201	\$ 333,201
Restricted cash	150,714	150,714
Taxes receivables, net	56,950	56,950
Account receivables, net	96,320	96,320
Due from other funds	65,516	65,516
Total assets	<u>\$ 702,701</u>	<u>\$ 733,504</u>
LIABILITIES		
Liabilities:		
Accounts payable and accrued liabilities	\$ 32,209	\$ 32,209
Total liabilities	<u>32,209</u>	<u>32,209</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	<u>56,950</u>	<u>56,950</u>
Total deferred inflows of resources	<u>56,950</u>	<u>56,950</u>
Fund balances:		
Restricted for:		
Streets - Powell Bill	150,714	150,714
Stabilization by State Statute	161,836	161,836
Unassigned	<u>300,992</u>	<u>300,992</u>
Total fund balances	<u>613,542</u>	<u>613,542</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 702,701</u>	
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		309,049
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		56,950
Deferred outflows of resources related to pensions are not reported in the funds.		41,578
Deferred inflows of resources related to pensions are not reported in the funds.		(3,832)
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.		
Long term debt		(102,789)
Compensated absences		(4,554)
Total pension liability.		(18,404)
Net pension liability.		(41,538)
Net position of governmental activities		<u>\$ 850,002</u>

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

	<u>General Fund</u>	<u>Total Governmental Funds</u>
REVENUES		
Ad valorem taxes	\$ 175,951	\$ 175,951
Unrestricted intergovernmental	304,925	304,925
Restricted intergovernmental	35,206	35,206
Permits and fees	8,717	8,717
Sales and services	127,989	127,989
Investment earnings	178	178
Total revenues	<u>652,966</u>	<u>652,966</u>
EXPENDITURES		
Current:		
General government	231,635	231,635
Public safety	230,482	230,482
Transportation	72,866	72,866
Cultural and recreational	96,793	96,793
Environmental protection	44,053	44,053
Debt service:		
Principal and interest	<u>25,293</u>	<u>25,293</u>
Total expenditures	<u>701,122</u>	<u>701,122</u>
Excess (deficiency) of revenues over expenditures	<u>(48,156)</u>	<u>(48,156)</u>
OTHER FINANCING SOURCES (USES)		
Insurance proceeds	<u>-</u>	<u>-</u>
Total other financing sources and uses	<u>-</u>	<u>-</u>
Net change in fund balance	(48,156)	(48,156)
Fund balances-beginning	661,698	661,698
Fund balances-ending	<u>\$ 613,542</u>	<u>\$ 613,542</u>

Town of Magnolia, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the
Statement of Activities
Governmental Funds
For the 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	\$	(48,156)
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.		(16,404)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		15,077
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the		
Change in unavailable revenue for tax revenues		8,906
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:		
Pension expense		(22,510)
Compensated absences		(624)
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. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
Principal payments on long-term debt	20,000	
Decrease in accrued interest payable	18,269	38,269
		<hr/>
Total changes in net position of governmental activities	\$	<u><u>(25,442)</u></u>

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

	General Fund			Variance With
	Original	Final	Actual	Final Budget
			Amounts	Positive
				(Negative)
Revenues:				
Ad valorem taxes	\$ 194,925	\$ 194,925	\$ 175,951	\$ (18,974)
Unrestricted intergovernmental	312,650	312,650	304,925	(7,725)
Restricted intergovernmental	33,500	33,500	35,206	1,706
Permit and fees	7,850	7,850	8,717	867
Sales and services	106,550	106,550	127,989	21,439
Investment earnings	35	35	178	143
Total revenues	<u>655,510</u>	<u>655,510</u>	<u>652,966</u>	<u>(2,544)</u>
Expenditures				
Current:				
General government	222,450	222,450	231,635	(9,185)
Public safety	213,025	213,025	230,482	(17,457)
Transportation	168,790	168,790	72,866	95,924
Environmental protection	98,350	98,350	96,793	1,557
Cultural and recreational	102,270	102,270	44,053	58,217
Debt service:				
Principal retirement and interest charges	27,500	27,500	25,293	2,207
Total expenditures	<u>832,385</u>	<u>832,385</u>	<u>701,122</u>	<u>131,263</u>
Revenues over (under) expenditures	(176,875)	(176,875)	(48,156)	128,719
Other financing sources (uses):				
Transfers (to)/from Other Funds	-	-	-	-
Insurance proceeds	5,000	5,000	-	(5,000)
Fund Balance Appropriated	171,875	171,875	-	(171,875)
Total other financing sources (uses)	<u>176,875</u>	<u>176,875</u>	<u>-</u>	<u>(176,875)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(48,156)	<u>\$ (48,156)</u>
Fund Balance, Beginning			661,698	
Fund Balance, Ending			<u>\$ 613,542</u>	

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

	<u>Water & Sewer Fund</u>
Assets	
Current assets:	
Cash and cash equivalents	\$ -
Restricted cash and cash equivalents	58,854
Accounts Receivable (net)	45,299
Total	<u>104,153</u>
Capital assets (net of depreciation)	5,893,223
Total assets	<u>5,997,376</u>
Deferred Outflows of Resources:	
Pension Deferrals	18,761
Total deferred outflows of resources	<u>18,761</u>
Liabilities	
Current liabilities:	
Due to other funds	65,516
Current portion of long term debt	15,979
Accounts payable and accrued liabilities	30,398
Total current liabilities	<u>111,893</u>
Noncurrent liabilities:	
Liabilities payable from restricted assets:	
Deposits	58,854
Compensated absences payable	8,307
Net pension liability	22,366
Total noncurrent liabilities	<u>89,527</u>
Total liabilities	<u>201,420</u>
Deferred Inflows of Resources	
Pension deferrals	314
Total deferred inflows of resources	<u>314</u>
Net Position	
Net investment in capital assets	5,877,244
Unrestricted	(62,841)
Net position of business-type activities	<u>\$ 5,814,403</u>

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

	Water & Sewer Fund
Operating revenues:	
Charges for services	\$ 316,060
Water & Sewer taps	3,500
Other operating revenues	8,761
Total operating revenues	<u>328,321</u>
Operating expenses:	
Salaries and benefits	185,347
Operations	172,213
Depreciation	248,741
Total operating expenses	<u>606,301</u>
Operating income	<u>(277,980)</u>
Nonoperating revenues (expenses):	
FEMA refund	43,437
Investment earnings	-
Interest expense	(1,653)
Total nonoperating revenues (expenses)	<u>41,784</u>
Income (loss) before contributions and transfers	<u>(236,196)</u>
Transfers from other funds	<u>-</u>
Change in net position	(236,196)
Net Position - beginning	<u>6,050,599</u>
Net Position, ending	<u><u>\$ 5,814,403</u></u>

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

	Water & Sewer Fund
Cash flows from operating activities:	
Cash received from customers	\$ 328,321
Cash paid for goods and services	(147,928)
Cash paid to employees for services	(175,306)
Net cash provided by operating activities	<u>5,087</u>
Cash flows from noncapital financing activities:	
Change in due to/from	<u>(9,813)</u>
Net cash used by noncapital financing activities	<u>(9,813)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(193,402)
Interest expense	(1,653)
Principal paid on long term-debt	(15,174)
Fema refund	43,437
Net cash used by capital and related financing activities	<u>(166,792)</u>
Cash flows from investing activities:	
Interest on investments	<u>-</u>
Net increase(decrease) in cash and cash equivalents	(171,518)
Cash and cash equivalents:	
Beginning of year, July 1	230,372
End of year, June 30	<u><u>\$ 58,854</u></u>

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

	<u>Water & Sewer Fund</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ (277,980)</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	248,741
Changes in assets, deferred outflows of resources, and liabilities:	
(Increase) decrease in accounts receivable	3,160
Increase (decrease) in deferred inflows of resources for pensions	(254)
Increase (decrease) in accrued vacation pay	3,016
Increase (decrease) in accounts payable and accrued liabilities	21,125
Increase (decrease) in deposits	4,310
Increase (decrease) in net pension liability	3,684
(Increase) decrease in deferred outflows of resources for pensions	(715)
Total adjustments	<u>283,067</u>
Net cash provided by operating activities	<u><u>\$ 5,087</u></u>

NOTES TO THE FINANCIAL STATEMENTS

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

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town of Magnolia (the "Town") is a municipal corporation that is governed by an elected mayor and a five-member Board of Commissioners.

B. Basis of Presentation

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

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

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

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

The Town reports one 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, street maintenance and construction, and sanitation services.

The Town reports the following major enterprise funds:

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

C. Measurement Focus and Basis of Accounting

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

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time 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 when applicable. 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 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 costs 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.

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

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

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Magnolia because the tax is levied by Duplin 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. Project ordinances are adopted for the Grant Projects, Special Revenue Fund and the Enterprise Capital Projects Fund. The Enterprise Fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than 10%. All amendments must be approved by the governing board. During the year, several immaterial 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.

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments generally are reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. The NCCMT-Term Portfolio is bond fund, has no rating and is measured at fair value. At June 30, 2020, the Term Portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

Town of Magnolia Restricted Cash

Governmental Activities

General Fund

Streets	\$	150,714
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Total governmental activities	\$	150,714
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Business-type Activities

Water and Sewer Fund

Customer Deposits	\$	58,854
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Total Business-type activities	\$	58,854
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Total Restricted Cash	\$	209,568
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3. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2018. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

4. 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.

5. Prepaid Items

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

6. 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 as follows; land, \$10,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$5,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. 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 the assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Improvements	20
Vehicles	3-5
Furniture and Equipment	10
Computer Equipment	5

7. Deferred outflows/inflows of resources

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

8. Long-Term Obligations

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

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.

9. Compensated Absences

The vacation policy of the Town provides:

- a. One week (40 hours) of annual leave time for each full year of service for permanent full time employees for the first five years of service with the Town.
- b. Annual leave may not be taken by probationary employees; but, if made a permanent employee, said employee's annual leave time will be computed from the date of first employment as a probationary employee.
- c. Annual leave time may be taken at any time during the twelve months following the end of the year in which the annual leave time is earned except as heretofore or hereinafter provided.
- d. Annual leave time not be taken during the following year in which it was earned will be forfeited unless the timing of the taking of the annual leave was denied by the department head, the Mayor, or the Board of Commissioners, and such denial was the cause of the expected loss of the annual leave time, in which case the annual leave may and must be taken during the three months next following such denial.
- e. Two weeks (80 hours) annual leave for all employees for each year of service for the 6th through the 15th year of service to the Town.
- f. Three weeks (120 hours) annual leave time for all employees for each year of service following the 15th year of service to the Town.
- g. Annual leave is calculated from the employee's anniversary date.

The Town's sick leave policy provides for an accrual of (12) days per fiscal year with a maximum accumulation of earned sick leave of 96 hours. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets, restricted, and unrestricted. Restricted net position represent 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 includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

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

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

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

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

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

II. Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LERS) and additions to/deductions from LERS' fiduciary net position have been determined on the same basis as they are reported by LERS. 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 LERS. Investments are reported at fair value.

II. Stewardship, Compliance, and Accountability

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

1. Noncompliance with North Carolina General Statutes

Timeliness of audit submission.
Noncompliance with budget.

2. Contractual Violations

None.

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

None.

C. Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2020, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for the general government and public safety activities by \$9,185 and \$17,457, respectively. Management and the Board will more closely review the budget reports to ensure compliance in future years.

III. Detail Notes on All Funds

A. Assets

1. Deposits

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

At June 30, 2020, the Town's deposits had a carrying amount of \$542,769 and a bank balance of \$568,152. The bank balances of the Town were covered by federal depository insurance in the amount of \$250,000. The remaining funds are covered through the pooling method.

2. Receivables - Allowances 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	\$ 6,328
Total General Fund	<u>\$ 6,328</u>

3. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 25,144	\$ -	\$ -	\$ 25,144
Construction in progress	-	-	-	-
Total capital assets not being depreciated	25,144	-	-	25,144
Capital assets being depreciated:				
Buildings & Other Improvements	494,781	35,053	-	529,834
Equipment and Vehicles	452,201	-	-	452,201
Infrastructure	61,250	-	-	61,250
Total capital assets being depreciated	1,008,232	35,053	-	1,043,285
Less accumulated depreciation for:				
Buildings & Other Improvements	232,406	18,183	-	250,589
Equipment and Vehicles	447,075	466	-	447,541
Infrastructure	61,250	-	-	61,250
Total accumulated depreciation	740,731	\$ 18,649	\$ -	759,380
Total capital assets being depreciated, net	267,501			283,905
Governmental activity capital assets, net	<u>\$ 292,645</u>			<u>\$ 309,049</u>

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

General Government	\$ 18,183
Public Safety	466
Transportation	-
Total Depreciation Expense	<u>\$ 18,649</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-Type activities:				
Capital assets not being depreciated:				
Land	\$ 13,600	\$ -	\$ -	\$ 13,600
Construction in progress	2,751,208	159,240	2,891,828	18,620
Total capital assets not being depreciated	2,764,808	159,240	2,891,828	32,220
Capital assets being depreciated:				
Plant & Distribution System	6,605,242	2,891,828	-	9,497,070
Equipment & Vehicles	332,830	34,162	-	366,992
Total capital assets being depreciated	6,938,072	2,925,990	-	9,864,062
Less accumulated depreciation for:				
Plant & Distribution Systems	3,471,598	234,723	-	3,706,321
Equipment and Vehicles	282,720	14,018	-	296,738
Total accumulated depreciation	3,754,318	\$ 248,741	\$ -	4,003,059
Total capital assets being depreciated, net	3,183,754			5,861,003
Business-type activity capital assets, net	\$ 5,948,562			\$ 5,893,223

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service. 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 or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Town of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2020, was 8.95% for general employees and 9.70% for law enforcement employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$23,196 for the year ended June 30, 2020.

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

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

At June 30, 2020, the Town reported a liability of \$63,904 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 0.0023%, which was no change from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$30,953. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 10,942	\$ -
Changes of assumptions	10,415	-
Net difference between projected and actual earnings on pension plan investments	1,559	-
Changes in proportion and differences between Town's contributions and proportionate share of contributions	7,490	897
Town's contributions subsequent to the measurement date	23,196	-
Total	<u>\$ 53,602</u>	<u>\$ 897</u>

\$23,196 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 liability 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:

<u>Year Ended June 30</u>	
2020	13,034
2021	5,138
2022	8,251
2023	3,086
2024	-
Thereafter	-
	<u>\$ 29,509</u>

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

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

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

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

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

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

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

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

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

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

	1 % Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 146,159	\$ 63,904	\$ (4,467)

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

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description*

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2019, the Separation Allowance's membership consisted of:

Inactive Members Currently Receiving Benfits	0
Active Members	2
Total	<u>2</u>

2. *Summary of Significant Account 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.

3. Actuarial Assumptions

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

Inflation	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.26%

4. Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were active recipients during the reporting period.

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 \$18,404. 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 \$2,391.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,779	\$ 2,842
Changes of assumptions and other inputs	958	407
Benefit payments and administrative expenses subsequent to the measurement date.	-	-
Total	<u>\$ 6,737</u>	<u>\$ 3,249</u>

\$0 paid as benefits came due and \$0 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources and will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended June 30</u>	
2020	\$ 399
2021	399
2022	399
2023	402
2024	445
Thereafter	1,444
	<u>\$ 3,488</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 total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.26 percent) or 1-percentage-point higher (4.26 percent) than the current rate:

	1 % Decrease (2.26%)	Discount Rate (3.26%)	1% Increase (4.26%)
Town's proportionate share of the net pension liability (asset)	\$ 20,079	\$ 18,404	\$ 16,844

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

	2020
Beginning balance	\$ 9,165
Service Cost	1,658
Interest on the total pension liability	334
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	6,640
Changes of assumptions or other inputs	607
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	<u>\$ 18,404</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.

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

	LGERS	LEOSSA	Total
Pension Expense	\$ 30,953	\$ 2,391	\$ 33,344
Pension Liability	63,904	18,404	82,308
Proportionate share of the net pension liability	0.0023%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	10,942	5,779	16,721
Changes of assumptions	10,415	958	11,373
Net difference between projected and actual earnings on plan investments	1,559	-	1,559
Changes in proportion and differences between contributions and proportionate share of contributions	7,490	-	7,490
Benefit payments and administrative costs paid subsequent to the measurement date	23,196	-	23,196
Deferred of Inflows of Resources			
Differences between expected and actual experience	-	2,842	2,842
Changes of assumptions	-	407	407
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	897	-	897

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2020 were \$3,869, which consisted of the entire amount being from the law enforcement officers.

2. 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 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. Because 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 post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

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

<u>Source</u>	<u>Amount</u>
Differences between expected and actual experience	\$ 16,721
Changes of assumptions	11,373
Net difference between projected and actual earnings on pension plan investments	1,559
Changes in proportion and differences between Town's contributions and proportionate share of contributions	7,490
Town's contributions subsequent to the measurement date	<u>23,196</u>
Total	<u>\$ 60,339</u>

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Pension deferrals	\$ 4,146	\$ -
Taxes Receivable	-	56,950
	<u>\$ 4,146</u>	<u>\$ 56,950</u>

4. Risk Management

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

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

The Town does not carry any flood insurance because the Town is not located in a flood plain.

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.

5. Claims, Judgements, and Contingent Liabilities

At June 30, 2020, there were no lawsuits against the Town that materially impact it's financial statements.

6. Long Term Obligationsa. Installment Purchases

On November 4, 2016 the Town entered into a \$200,000 direct placement contract to finance the construction of a municipal building. The contract will be paid in annual principal installments of \$20,000 interest at 3.75% annum for 10 years. At year end \$162,789 had been drawn down on the \$200,000 loan. The balance at June 30, 2020 was \$102,789.

The future minimum payments of the installment purchases as of June 30, 2020 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 20,000	\$ 5,250
2022	20,000	4,500
2023	20,000	3,750
2024	20,000	3,000
2025	20,000	2,500
Next Five Years	2,789	-
Total	<u>\$ 102,789</u>	<u>\$ 19,000</u>

On July 30, 2018 the Town entered into a \$47,979 direct placement contract to purchase two new trucks for Water/Sewer Department. The contract will be paid in annual principal installments of \$16,826 interest at 5.18% annum for 3 years. The balance at June 30, 2020 was \$15,979.

The future minimum payments of the installment purchases as of June 30, 2020 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2021	\$ 15,979	\$ 848
Total	<u>\$ 15,979</u>	<u>\$ 848</u>

b. Changes in General Long-Term Liabilities

During the year ended June 30, 2020 the following changes occurred in installment purchase in the:

	Balance 07/01/19	Increases	Decreases	Balance 06/30/20	Current Portion
Governmental activities:					
Direct Placement Installment purchases	\$ 122,789	\$ -	\$ (20,000)	\$ 102,789	\$ 20,000
Compensated absences	3,930	4,979	(4,355)	4,554	4,554
Total Pension liability (LEOSSA)	9,165	9,239	-	18,404	-
Net Pension liability (LGERS)	34,696	6,842	-	41,538	-
Governmental activity long-term liabilities	<u>\$ 170,580</u>	<u>21,060</u>	<u>(24,355)</u>	<u>167,285</u>	<u>\$ 24,554</u>
Business-type activities:					
Direct Placement Installment purchases	\$ 31,153	\$ -	\$ (15,174)	15,979	\$ 15,979
Compensated absences	5,291	5,259	(2,243)	8,307	8,307
Net Pension liability (LGERS)	18,682	3,684	-	22,366	-
Business-type activity long-term liabilities	<u>\$ 55,126</u>	<u>\$ 8,943</u>	<u>\$ (17,417)</u>	<u>\$ 46,652</u>	<u>\$ 24,286</u>

State statute provides for a legal debt limit of eight percent of the Town's appraised valuation. The Town's legal debt margin as of June 30, 2020 amounts to \$2,344,812.

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

C. Interfund Balances and Activity

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water Fund	\$ 65,516

To supplement other funding sources.

D. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$ 309,049	\$ 5,893,223
less: long term debt	(102,789)	(15,979)
Net investment in capital asset	<u>\$ 206,260</u>	<u>\$ 5,877,244</u>

E. 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	\$ 613,542
Less:	
Stabilization by State Statute	161,836
Streets - Powell Bill	150,714
Remaining Fund Balance	\$ 300,992

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

V. Significant Effects of Subsequent Events

There are no subsequent events that would have a material affect on the financial statements. Subsequent events have been analyzed through May 26, 2021 that the financial statements were available to be issued.

REQUIRED
SUPPLEMENTAL FINANCIAL DATA

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

Schedule of the Proportionate Share of the Net Pension
Asset – Local Government Employees' Retirement System

Schedule of Contributions – Local Government
Employees' Retirement System

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

Schedule of Total Pension Liability as a Percentage of
Covered Payroll - Law Enforcement Officers' Special
Separation Allowance

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

Local Government Employees' Retirement System

	2020	2019	2018	2017	2016	2015	2014
Town's proportion of the net pension liability (asset) (%)	0.0023%	0.0023%	0.0025%	0.0033%	0.0037%	0.0039%	0.0039%
Town's proportion of the net pension liability (asset) (\$)	\$ 63,904	\$ 53,378	\$ 37,582	\$ 70,037	\$ 16,381	\$ (19,697)	\$ (19,697)
Town's covered-employee payroll	\$ 226,849	\$ 216,633	\$ 217,754	\$ 238,007	\$231,753	\$236,902	\$ 234,306
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	28.17%	24.64%	17.26%	29.43%	7.07%	20.06%	20.06%
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	94.18%	91.47%	98.09%	99.07%	102.64%	94.35%

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

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

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

Local Government Employees' Retirement System

	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 23,196	\$ 18,094	\$ 16,682	\$ 16,188	\$ 16,234	\$ 16,720	\$ 16,673
Contributions in relation to the contractually required contribution	23,196	18,094	16,682	16,188	16,234	16,720	16,673
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 252,573	\$ 226,849	\$ 216,633	\$ 217,754	\$ 238,007	\$ 231,753	\$ 236,902
Contributions as a percentage of covered- employee payroll	9.18%	7.98%	7.70%	7.43%	6.82%	7.21%	7.04%

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 9,165	\$ 12,154	\$ 10,457	\$ 8,760
Service Cost	1,658	1,067	1,749	1,749
Interest on the total pension liability	334	271	313	313
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience in the measurement of the total	6640	(4,025)	-	-
Changes of assumptions or other inputs	607	(302)	(365)	(365)
Benefit payments	-	-	-	-
Other changes	-	-	-	-
Ending balance of the total pension liability	<u>\$ 18,404</u>	<u>\$ 9,165</u>	<u>\$ 12,154</u>	<u>\$ 10,457</u>

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

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 18,404	\$ 9,165	\$ 12,154	\$ 10,457
Covered payroll	85,821	47,248	57,988	74,447
Total pension liability as a percentage of covered payroll	21.44%	19.40%	20.96%	14.04%

Notes to the schedules:

The Town of Magnolia has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73

INDIVIDUAL FUND SCHEDULES

- Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - General Fund

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

	2020		Variance
	Budget	Actual	Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 170,840	\$
Penalties and interest		5,111	
Total	194,925	175,951	(18,974)
Unrestricted intergovernmental:			
Utilities sales tax		33,847	
Local option sales taxes		268,362	
Beer and wine tax		2,622	
Refunds		94	
Total	312,650	304,925	(7,725)
Restricted intergovernmental:			
Solid waste disposal tax		737	
Powell Bill allocation		34,469	
Total	33,500	35,206	1,706
Permits and fees:			
Zoning Permits		595	
Police fees		2,512	
Rents and concessions		5,610	
Total	7,850	8,717	867

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

	2020		Variance
	Budget	Actual	Positive (Negative)
Sales and services:			
Contributions		250	
Refuse		99,391	
Miscellaneous		28,348	
Total	106,550	127,989	21,439
Investment earnings	35	178	143
Total Revenues	655,510	652,966	(2,544)
Expenditures:			
General government:			
Administration:			
Salaries and benefits		87,598	
Operating expense		108,584	
Economic development		400	
Capital outlay		35,053	
Total	222,450	231,635	(9,185)
Total General Government	222,450	231,635	(9,185)
Public Safety:			
Police:			
Salaries & benefits		171,117	
Operating expense		24,122	
Total	177,775	195,239	(17,464)
Fire:			
Operating expense		35,243	
Total	35,250	35,243	7
Total public safety	213,025	230,482	(17,457)

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

	2020		Variance
	Budget	Actual	Positive (Negative)
Transportation (Powell Bill):			
Operating expense		2,284	
Total	93,500	2,284	91,216
Transportation :			
Salaries & benefits		41,719	
Operating expense		28,863	
Total	75,290	70,582	4,708
Total transportation	168,790	72,866	95,924
Environmental protection:			
Salaries & benefits		20,359	
Operating expense		5,478	
Contracted services		70,956	
Total	98,350	96,793	1,557
Total environmental	98,350	96,793	1,557
Cultural/Recreation:			
Salaries & benefits		1,074	
Operating expense		42,979	
Total	102,270	44,053	58,217

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

	2020		Variance
	Budget	Actual	Positive (Negative)
Debt service:			
Principle retirement		20,000	
Interest and fees		5,293	
Total	27,500	25,293	2,207
Total Expenditures	832,385	701,122	131,263
Revenues over (under) expenditures	(176,875)	(48,156)	128,719
Other financing sources (uses):			
Insurance proceeds	5,000	-	(5,000)
Fund Balance Appropriated	171,875	-	(171,875)
Total	176,875	-	(176,875)
Net Change in Fund Balance	\$ -	(48,156)	\$ (48,156)
Fund balances, beginning		661,698	
Fund balances, ending		\$ 613,542	

ENTERPRISE FUNDS

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

		2020	
		Budget	Variance Positive (Negative)
		Actual	
Revenues:			
Charges for services:			
Water & Sewer sales:			
Residential &			
Commercial			
	\$ -	\$ 316,060	\$ -
Water taps		3,500	
Other operating revenues		8,761	
Total Operating Revenues	419,050	328,321	(90,729)
Total Revenues	419,050	328,321	(90,729)
Expenditures:			
Water Operations:			
Salaries and benefits		179,616	
Utilities		39,543	
Contracted services		14,694	
Maintenance and repairs		57,843	
Other		16,044	
Departmental supplies and materials		27,583	
Water distribution		16,506	
Capital outlay		34,162	
Total	402,050	385,991	16,059

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

	2020		Variance
	Budget	Actual	Positive (Negative)
Debt service:			
Interest and fees		1,653	
Principal retirement		15,174	
Total debt service	17,000	16,827	173
 Total expenditures	 419,050	 402,818	 16,232
Other financing sources (uses):			
Transfers in (out)	-	30,208	30,208
Fema refund	-	43,437	43,437
Fund balance appropriated	-	-	-
Total other financing sources (uses):	-	73,645	73,645
 Revenues and other sources over expenditures and other uses	 \$ -	 \$ (852)	 \$ (852)
 Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues over expenditures		\$ (852)	
Reconciling items:			
Principal retirement		15,174	
Capital outlay		34,162	
Installment proceeds		-	
Depreciation		(248,741)	
Change in accrued vacation pay		(3,016)	
(Increase) decrease in net pension liability		(3,684)	
Increase (decrease) in deferred outflows of resources for pensions		715	
(Increase) decrease in deferred inflows of resources for pensions		254	
Transfers from project fund		(30,208)	
Total reconciling items		(235,344)	
 Change in Net Position		 \$ (236,196)	

Town of Magnolia, North Carolina
Water CDBG Project
Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)
From Inception and for the Fiscal Year Ended June 30, 2020

	Project Author - ization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues - Water Project:					
Restricted intergovernmental:					
Grant 13-I-2623	\$ 3,000,000	\$ 2,908,401	\$ -	\$ 2,908,401	\$ (91,599)
Local Funds	50,000	27,235	-	27,235	(22,765)
Total revenues	<u>3,050,000</u>	<u>2,935,636</u>	<u>-</u>	<u>2,935,636</u>	<u>(114,364)</u>
Expenditures - Water Project:					
Construction	2,751,000	2,659,329	91,671	2,751,000	-
Administration	299,000	100,479	53,949	154,428	144,572
Total expenditures	<u>3,050,000</u>	<u>2,759,808</u>	<u>145,620</u>	<u>2,905,428</u>	<u>144,572</u>
Revenues over (under) expenditures	<u>-</u>	<u>175,828</u>	<u>(145,620)</u>	<u>30,208</u>	<u>30,208</u>
Other financing sources (uses):					
Transfers from (to) other funds	<u>-</u>	<u>-</u>	<u>(30,208)</u>	<u>(30,208)</u>	<u>(30,208)</u>
Total other financing sources	<u>-</u>	<u>-</u>	<u>(30,208)</u>	<u>(30,208)</u>	<u>(30,208)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 175,828</u>	<u>(175,828)</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			175,828		
Fund balance, ending			<u>\$ -</u>		

Town of Magnolia, North Carolina
Sewer CDBG Project
Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)
From Inception and for the Fiscal Year Ended June 30, 2020

	Project Author - ization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues - Sewer Project:					
Restricted intergovernmental:					
CDBG Grant	\$ 1,398,000	\$ -	\$ -	\$ -	\$ (1,398,000)
Local Funds	8,850	-	-	-	(8,850)
Total revenues	<u>1,406,850</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,406,850)</u>
Expenditures - Sewer Project:					
Construction	1,269,150	-	-	-	1,269,150
Administration	137,700	-	18,620	18,620	119,080
Total expenditures	<u>1,406,850</u>	<u>-</u>	<u>18,620</u>	<u>18,620</u>	<u>1,388,230</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(18,620)</u>	<u>(18,620)</u>	<u>(18,620)</u>
Other financing sources (uses):					
Transfers from (to) other funds	-	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(18,620)</u>	<u>\$ (18,620)</u>	<u>\$ (18,620)</u>
Fund balance, beginning			-		
Fund balance, ending			<u>\$ (18,620)</u>		

OTHER SCHEDULES

This section includes additional information on property taxes.

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

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

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2019</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2020</u>
2019 - 2020	\$ -	\$ 193,447	\$ 171,404	\$ 22,043
2018 - 2019	17,037	-	3,578	13,459
2017 - 2018	10,463	-	1,406	9,057
2016 - 2017	6,318	-	756	5,562
2015 - 2016	5,033	-	1,251	3,782
2014 - 2015	3,851	-	750	3,101
2013 - 2014	2,388	-	418	1,970
2012 - 2013	2,198	-	731	1,467
2011 - 2012	2,268	-	791	1,477
2010 - 2011	1,566	-	206	1,360
2009 - 2010	2,258		2,258	-
	<u>\$ 53,380</u>	<u>\$ 193,447</u>	<u>\$ 183,549</u>	<u>\$ 63,278</u>
Less: Allowance for uncollectible accounts				<u>(6,328)</u>
Ad valorem taxes receivable - net				<u>\$ 56,950</u>
<u>Reconcilement with revenues:</u>				
Ad valorem taxes - General Fund				\$ 175,951
Reconciling items:				
Interest & Penalties collected				(5,111)
Releases and write offs				<u>12,709</u>
Subtotal				<u>7,598</u>
Total collections and credits				<u>\$ 183,549</u>

Town of Magnolia, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2020

				Total Levy	
	Town - Wide			Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Property Valuation	Rate	Total Levy		
Original levy:					
Property taxed at current year's rate	\$ 29,310,152	0.66	\$ 193,447	\$ 162,436	\$ 31,011
Penalties	-		-	-	-
Total	<u>29,310,152</u>		<u>193,447</u>	<u>162,436</u>	<u>31,011</u>
Total property valuation	<u><u>\$ 29,310,152</u></u>				
Net levy			193,447	162,436	31,011
Uncollected taxes at June 30, 2020			<u>22,043</u>	<u>22,043</u>	<u>-</u>
Current year's taxes collected			<u><u>\$ 171,404</u></u>	<u><u>\$ 140,393</u></u>	<u><u>\$ 31,011</u></u>
Current levy collection percentage			<u><u>88.61%</u></u>	<u><u>86.43%</u></u>	<u><u>100.00%</u></u>

COMPLIANCE SECTION



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

Independent Auditor's Report

To the Honorable Mayor
and Members of the Board of Commissioners
Magnolia, 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 accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Magnolia for the year ended June 30, 2020, and the related notes to the financial statement, which collectively comprises the Town of Magnolia's basic financial statements, and have issued our report thereon dated May 26, 2021.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency or 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. Listed as items 2020-001, 2020-002, 2020-003, and 2020-004.

Compliance and Other Matters

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

Town of Magnolia's Response to Findings

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

Purpose of this Report

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

Thompson, Price, Scott, Adams & Co., PA

Wilmington, North Carolina

May 26, 2021

**Town of Magnolia, North Carolina
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2020**

Section I. Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

Material weaknesses identified? ☐ Yes ☒ No

Significant Deficiency(s) identified? ☒ Yes ☐ No

Noncompliance material to financial statements noted? ☒ Yes ☐ No

**Town of Magnolia, North Carolina
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2020**

Section II. Financial Statement Findings

SIGNIFICANT DEFICIENCY

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.

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2019-001.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will adhere to the corrective action plan to follow.

2020-002 Timeliness of Audit Report Submission.

Criteria: The June 30, 2020 audit was submitted passed the required due date. This is a violation of G.S. 159-33.

Condition: Required reports to the State of North Carolina were not filed by the required due date.

Context: The Town was unable to produce all the paperwork needed in a timely manner for the auditor to be able to complete the audit.

Effect: The reports are a requirement of General Statutes, lateness created the statute violation.

Cause: A delay in getting the audit firm information it needed to complete the audit.

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2019-002.

Recommendation: The town has implemented steps to prevent this in the future.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and has already taken action.

2020-003 Failure to Perform Reconciliations of Significant Accounts

Criteria: Accounts payable and accounts receivable accounts are not reconciled to the general ledger accounts in a timely or accurate manner.

Condition: There is a lack of ability to reconcile these subsidiary ledgers to the general ledger.

Effect: Information obtained from general ledger could be incorrect.

Cause: Inadequate training with software.

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2019-003.

Recommendation: The Town should obtain additional training with the software vendor and evaluate the usefulness of the system.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will adhere to the corrective action plan to follow.

MATERIAL NONCOMPLIANCE/SIGNIFICANT DEFICIENCY

2020-004 Noncompliance with Budget

Criteria: G.S. 159-28(a) states that no obligation may be incurred in a function accounted for in a fund included in the budget ordinance unless the budget ordinance includes an appropriation authorizing the obligation and an unencumbered balance remains in the appropriation sufficient to pay in the current fiscal year the sums obligated by the transaction for the current fiscal year.

Condition: The Town expended more for the General Fund than was appropriated for in the annual budget ordinance.

Effect: Monies were spent that had not been obligated and appropriated.

Cause: The Town exceeded budget expenditures in the General Fund while budget amendments were not adopted.

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2019-004.

Recommendation: Before an obligation is to incur that will exceed the amount that was previously approved in the budget ordinance, an amendment to the budget should be adopted.

Views of responsible officials and planned corrective actions: The Town will continue to monitor the budgets on a monthly basis to ensure compliance.



**Town of Magnolia, North Carolina
Corrective Action Plan
For the Fiscal Year Ended June 30, 2020**

Section II - Financial Statement Findings

2020 - 001

Name of Contact Person:

Gwendolyn Vann, Mayor

Corrective Action:

The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The governing board will become more involved in providing some of these controls.

Proposed Completion Date:

The Board will implement the above procedure immediately.

2020 - 002

Name of Contact Person:

Gwendolyn Vann, Mayor

Corrective Action:

Corrective Action: The town will ensure timeliness of required filings.

Proposed Completion Date:

The Board will implement the above procedure immediately.

2020 - 003

Name of Contact Person:

Gwendolyn Vann, Mayor

Corrective Action:

Corrective Action: The Town will obtain additional training in accounting software and will obtain outside resources for assistance. The Town will reconcile required accounts in a timely and accurate manner.

Proposed Completion Date:

The Board will implement the above procedure immediately.

2020 - 004

Name of Contact Person:

Gwendolyn Vann, Mayor

Corrective Action:

Corrective Action: The board will start evaluating this deficiency to ensure that proper budgets are completed as well as budget amendments.

Proposed Completion Date:

The Board will implement the above procedure immediately.