

TOWN OF MCFARLAN, NORTH CAROLINA

FINANCIAL STATEMENTS

June 30, 2020

TOWN OF MCFARLAN, NORTH CAROLINA

TOWN OFFICIALS

JUNE 30, 2020

MAYOR

DIANE TIMMONS

TOWN COUNCIL

DEBBIE BRYANT
MICHAEL FOSTER
JIMMY GRUBB
KIM GAINEY
GAIL WHITTINGTON

OTHER OFFICIALS

CATHY KELLY, TOWN CLERK

TOWN OF MCFARLAN, NORTH CAROLINA
TABLE OF CONTENTS
June 30, 2020

<u>Exhibit</u>		<u>Page No.</u>
FINANCIAL SECTION		
	Independent Auditor’s Report	1
	Management’s Discussion and Analysis	3
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position	8
2	Statement of Activities	9
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds	10
4	Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	11
5	Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	12
	Notes to the Financial Statements	13
	Individual Fund Financial Schedule:	
A-1	Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund	20
	Other Schedules:	
B-1	Schedule of Ad Valorem Taxes Receivable	22
B-2	Analysis of Current Tax Levy	23

FINANCIAL SECTION



220 East Washington Street
Post Office Box 697
Rockingham, North Carolina 28380
(910) 557-1176

Other Office Locations:
Seven Lakes, North Carolina
Gastonia, North Carolina
Statesville, North Carolina

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Town of McFarlan, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinions

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

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 7, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

Anderson Smith + Wike PLLC

Rockingham, NC
September 25, 2020

Management's Discussion and Analysis

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

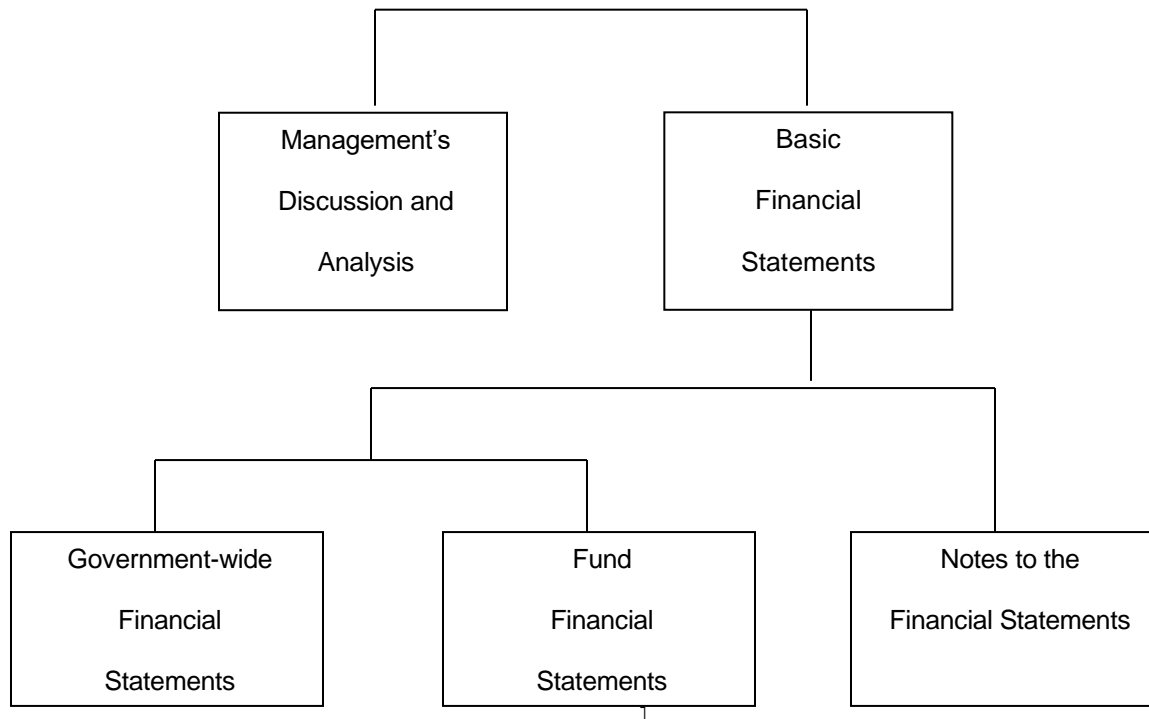
Financial Highlights

- The assets of the Town of McFarlan exceeded its liabilities at the close of the fiscal year by \$223,162 (*net position*).
- The government's total net position increased by \$6,444 primarily due to sales tax revenues exceeding expectations in the governmental type activities.
- As of the close of the current fiscal year, the Town of McFarlan's general fund reported an ending fund balance of \$216,749, an increase of \$7,397 in comparison with the prior year. Approximately 79.7 percent of fund balance, or \$172,770, is available for spending at the government's discretion (unassigned fund balance).

Overview of the Financial Statements

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

Required Components of Annual Financial Report



Summary → Detail

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

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

Government-wide Financial Statements

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

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

The government-wide statements are governmental activities. The governmental activities include most of the Town's basic services such as general government and transportation. Other taxes finance most of these activities.

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

Fund Financial Statements

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

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Town's basic services are accounted for in one governmental fund, the General Fund. This fund focuses 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 McFarlan 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 Council 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.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 13-17 of this report.

Interdependence with Other Entities – The Town depends on financial resources flowing from, or associated with, 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 State laws and appropriations.

Government-Wide Financial Analysis

As year-to-year financial information is accumulated on a consistent basis, changes in net position may be observed and used to discuss the changing financial position of the Town as a whole.

The following table provides a summary of the Town’s net position:

The Town of McFarlan’s Net Position

	<u>Governmental Activities</u>	
	<u>2020</u>	<u>2019</u>
Current and other assets	\$ 217,423	\$ 210,037
Capital assets	5,739	6,681
Total assets	<u>223,162</u>	<u>216,718</u>
Current liabilities	<u>-</u>	<u>-</u>
Net position		
Net investment in capital assets	5,739	6,681
Restricted	23,979	19,992
Unrestricted	<u>193,444</u>	<u>190,045</u>
Total net position	<u>\$ 223,162</u>	<u>\$ 216,718</u>

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 McFarlan exceeded liabilities by \$223,162 as of June 30, 2020. The Town’s net position increased by \$6,444 for the fiscal year ended June 30, 2020. A large portion of net position (86.7%) reflects the Town’s unrestricted portion. Another portion, \$5,739, represents the Town’s net investment in capital assets (e.g. land, buildings and improvements). The Town of McFarlan uses these capital assets to provide services to citizens and consequently, these assets are not available for future spending. The final portions of net position include \$5,323 which is restricted for Stabilization by State Statute, and \$18,656 restricted for streets.

Town of McFarlan Changes in Net Position

	Governmental Activities	
	2020	2019
Revenues:		
Program revenues		
Operating grants and contributions	\$ 4,502	\$ 4,500
General revenues		
Property taxes	9,742	9,679
Other taxes	30,509	32,561
Unrestricted investment earnings	1,418	1,261
Miscellaneous earnings	1,734	-
Total revenues	47,905	48,001
Expenses:		
General Government	30,210	33,178
Transportation	11,251	12,029
Total expenses	41,461	45,207
Increase (decrease) in net position	6,444	2,794
Net position, July 1,	216,718	213,924
Net position, June 30	\$ 223,162	\$ 216,718

Governmental activities. Governmental activities increased the Town's net position by \$6,444, primarily due to sales tax revenues received in excess of expectations without a corresponding increase in Town expenses.

Financial Analysis of the Town's Funds

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

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

The general fund is the only fund of the Town of McFarlan. At the end of the current fiscal year, unassigned fund balance of the general fund was \$172,770, while the total fund balance reached \$216,749. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 426.4 percent of total expenditures, while total fund balance represents 534.9 percent of that same amount.

General Fund Budgetary Highlights: The Town did not revise the budget during the fiscal year. Revenues were more than the budgeted amounts primarily because sales tax revenues were higher than anticipated. In addition, expenditures were controlled though the town did not comply with its budgetary requirements.

Capital Asset and Debt Administration

Capital assets. The Town of McFarlan's capital assets, at cost, for its governmental activities as of June 30, 2020, totals \$5,739 (net of accumulated depreciation). These assets include buildings and improvements and land.

There were no capital transactions during the year.

Town of McFarlan's Capital Assets

Net of Accumulated Depreciation

	Governmental Activities	
	2020	2019
Non-depreciable assets		
Land	\$ 1,000	\$ 1,000
Depreciable assets		
Buildings	-	249
Equipment	4,739	5,432
Total	<u>\$ 5,739</u>	<u>\$ 6,681</u>

Additional information on the Town's capital assets can be found in NOTE 3.A. of the Basic Financial Statements.

Long-term debt. As of June 30, 2020, the Town did not have any long-term debt.

Economic Factors and Next Year's Budgets and Rates

Impact of Coronavirus on Town

On January 30, 2020, the World Health Organization declared the coronavirus "COVID-19" outbreak a "Public Health Emergency of International Concern" and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines, or "stay-at-home" restrictions in certain areas and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets globally, including that of the Town. While it is unknown how long these conditions will last and what the complete financial impact will be, the Town is closely monitoring the impact of the COVID-19 pandemic on all aspects of their operations and are unable at this time to predict the continued impact that COVID-19 will have on their services, financial position, and operating results in future periods due to numerous uncertainties.

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities: The governmental funds' primary revenue resources are property taxes, local option sales taxes and intergovernmental revenues. For the fiscal year ending June 30, 2021, the Town does not expect much change from prior year, though it did appropriate \$20,000 for park maintenance.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Mayor, Town of McFarlan, Post Office Box 66, McFarlan, North Carolina 28102.

BASIC FINANCIAL STATEMENTS

TOWN OF MCFARLAN, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2020

Exhibit 1

	Primary Government <u>Governmental</u> <u>Activities</u>
ASSETS	
Current assets	
Cash and cash equivalents	\$ 192,770
Tax receivable	674
Due from other governments	5,323
Restricted cash and cash equivalents	<u>18,656</u>
Total current assets	<u>217,423</u>
Non-current assets:	
Capital assets	
Land	1,000
Buildings and equipment, net of depreciation	<u>4,739</u>
Total capital assets	<u>5,739</u>
Total assets	<u>\$ 223,162</u>
LIABILITIES	
Current liabilities:	
Accounts payable	<u>-</u>
Total liabilities	<u>\$ -</u>
NET POSITION	
Net investment in capital assets	\$ 5,739
Restricted for:	
Stabilization by State Statute	5,323
Streets	18,656
Unrestricted	<u>193,444</u>
Total net position	<u>\$ 223,162</u>

TOWN OF MCFARLAN, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Exhibit 2

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Net (Expense) Revenue and Changes in Net Position</u> <u>Primary Government</u> <u>Governmental</u> <u>Activities</u>
Primary government				
Governmental activities				
General government	\$ 30,210	\$ -	\$ -	\$ (30,210)
Transportation	<u>11,251</u>	<u>-</u>	<u>4,502</u>	<u>(6,749)</u>
Total primary governmental activities	<u>41,461</u>	<u>-</u>	<u>4,502</u>	<u>(36,959)</u>
General revenues				
Property taxes, levied for general purpose				9,742
Sales taxes, unrestricted for use				28,104
Other taxes				2,405
Unrestricted investment earnings				1,418
Miscellaneous revenue				<u>1,734</u>
				43,403
				6,444
Net position, beginning				<u>216,718</u>
Net position, ending				<u>\$ 223,162</u>

TOWN OF MCFARLAN, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2020

Exhibit 3

	<u>Major Fund</u>
	<u>General</u>
ASSETS	
Cash and cash equivalents	\$ 192,770
Restricted cash and cash equivalents	18,656
Receivables, net	
Taxes	674
Due from other governments	<u>5,323</u>
Total assets	<u>\$ 217,423</u>
LIABILITIES	
Accounts payable and accrued liabilities	<u>-</u>
Total liabilities	<u>\$ -</u>
DEFERRED INFLOWS OF RESOURCES	
Property tax receivable	\$ 674
Total deferred inflows of resources	<u>674</u>
FUND BALANCES	
Restricted	
Stabilization by State Statute	\$ 5,323
Streets	18,656
Assigned	
Subsequent year's expenditures	20,000
Unassigned	<u>172,770</u>
Total fund balances	<u>\$ 216,749</u>
Reconciliation of fund balance as reported in the balance sheet - governmental funds with net position - governmental activities	
Fund balance as reported in the balance sheet - governmental funds	\$ 216,749
Amounts reported for governmental activities in the statement of net position is different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds	5,739
Liabilities for earned but deferred revenues in fund statements	<u>674</u>
Net position of governmental activities	<u>\$ 223,162</u>

TOWN OF MCFARLAN, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUND
For the Year Ended June 30, 2020

Exhibit 4

	<u>Major Fund</u> <u>General</u>
REVENUES	
Ad valorem taxes	\$ 9,753
Unrestricted intergovernmental	30,509
Restricted intergovernmental	4,502
Investment earnings	1,418
Miscellaneous revenues	<u>1,734</u>
Total revenues	<u>47,916</u>
EXPENDITURES	
Current	
General Government	29,517
Transportation	<u>11,002</u>
Total expenditures	<u>40,519</u>
Net change in fund balance	7,397
Fund balance - beginning	<u>209,352</u>
Fund balance - ending	<u>\$ 216,749</u>
Reconciliation of net change in fund balance in the statement of revenues, expenditures, and changes in fund balances - governmental funds to change in net position - governmental activities	
Net change in fund balance - total governmental fund	\$ 7,397
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 outlay exceeded depreciation expense in the current period.	
Depreciation expense for governmental assets	(942)
Revenues in the statement of activities that do not provide current financial resources are not reported in the funds	
Change in deferred revenues for tax revenues	<u>(11)</u>
Total change in net position of governmental activities	<u>\$ 6,444</u>

TOWN OF MCFARLAN, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2020

Exhibit 5

	<u>Original</u>	<u>Final</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget - Positive (Negative)</u>
REVENUES				
Ad valorem taxes	\$ 9,800	\$ 9,800	\$ 9,753	\$ (47)
Unrestricted intergovernmental	20,850	20,850	30,509	9,659
Restricted intergovernmental	4,500	4,500	4,502	2
Investment earnings	1,500	1,500	1,418	(82)
Miscellaneous	<u>2,000</u>	<u>2,000</u>	<u>1,734</u>	<u>(266)</u>
Total revenues	<u>38,650</u>	<u>38,650</u>	<u>47,916</u>	<u>9,266</u>
EXPENDITURES				
Current				
General government	28,750	28,750	29,517	(767)
Transportation	<u>9,900</u>	<u>9,900</u>	<u>11,002</u>	<u>(1,102)</u>
Total expenditures	<u>38,650</u>	<u>38,650</u>	<u>40,519</u>	<u>(1,869)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	7,397	<u>\$ 7,397</u>
Fund balance - beginning			<u>209,352</u>	
Fund balance - ending			<u>\$ 216,749</u>	

NOTES TO THE FINANCIAL STATEMENTS

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

TOWN OF MCFARLAN, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of McFarlan, North Carolina 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 McFarlan, North Carolina, is a municipal corporation that is governed by an elected mayor and a five-member council.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the Town. These statements include the financial activities of the overall government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. The Town has no activities that qualify as business-type activities as defined by U.S. Generally Accepted Accounting Principles.

The statement of activities presents a comparison between direct expenses and program revenues 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. 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. The Town maintains only one fund, a governmental fund, which is described as follows:

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, sales taxes, grants and investment earnings. The primary expenditures are for general government and transportation.

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 Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus. The government-wide 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 and other taxes. On an accrual basis, revenues 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 consist primarily of operating grants and contributions. General revenues include all taxes.

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. General capital asset acquisitions are reported as expenditures in governmental funds.

**TOWN OF MCFARLAN, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as 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 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 McFarlan because the tax is levied by Anson 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.

D. Budgetary Data

The Town's annual budget for the General Fund is adopted as required by the North Carolina General Statutes. All annual appropriations lapse at fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. (Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds). All amendments must be approved by the governing board. 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 and Fund Equity

Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The Town's investments are generally reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents.

Restricted Assets

Powell Bill funds of \$18,656 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 MCFARLAN, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

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, 2019. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowances for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. Allowance has not been calculated as historical uncollected amount have been trivial.

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: Buildings and improvements, \$10,000; infrastructure, \$5,000; and furniture and equipment, \$1,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition values. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	40
Other Improvements	20
Equipment	10
Vehicles and motorized equipment	5
Infrastructure	40

Compensated Absences

The Town has no full-time employee(s) to accrue compensated absences for.

Net Position

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

Fund Balances

In the governmental fund financial statements, fund balance is composed of three 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:

TOWN OF MCFARLAN, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Assets, Liabilities and Fund Equity (Continued)

Fund Balances (Continued)

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 non-spendable. 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 unexpended Powell Bill funds.

Assigned fund balance – portion of fund balance that the Town of McFarlan intends to use for specific purposes.

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

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

F. Other

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from these estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2020, the expenditures made in the Town's General Fund's General Government and Transportation exceeded the authorized appropriations made by the governing board by \$767 and \$1,102, respectively. Management and the council will more closely review the budget reports to ensure compliance in future years.

TOWN OF MCFARLAN, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A. Assets

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 agent in the units' name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in their name. The amount of the pledged collateral is based on an approved averaging method for noninterest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risks 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 \$77,633 and a bank balance of \$77,633. Of the bank balance, \$77,633 was covered by federal depository insurance and none was covered by collateral held under the pooling method.

Investments

At June 30, 2020, the Town had \$133,793 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

Capital Assets

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

Primary Government:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Governmental Activities				
Capital assets not being depreciated				
Land	\$ 1,000	\$ -	\$ -	\$ 1,000
Capital assets being depreciated				
Buildings	51,376	-	-	51,376
Equipment	15,967	-	-	15,967
Total capital asset being depreciated	67,343	-	-	67,343
Less accumulated depreciation				
Buildings	51,127	249	-	51,376
Equipment	10,535	693	-	11,228
Total accumulated depreciation	61,662	942	-	62,604
Total capital assets, being depreciated, net	5,681	(942)	-	4,739
Governmental activity capital assets, net	<u>\$ 6,681</u>	<u>\$ (942)</u>	<u>\$ -</u>	<u>\$ 5,739</u>

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

General government	\$ 693
Transportation	249
Total depreciation expense	<u>\$ 942</u>

TOWN OF MCFARLAN, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

NOTE 3 – DETAIL NOTES ON ALL FUNDS (Continued)

A. Assets (Continued)

Due from Other Governmental Agencies

At June 30, 2020, funds due from other governmental agencies consisted of the following:

	<u>Governmental Activities-General</u>
Local option sales tax	\$ 4,628
Franchise tax	497
Vehicle/Real property tax	<u>198</u>
Total	\$ 5,323

B. Liabilities

1. Deferred Outflows and Inflows of Resources

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

Taxes receivable	\$ <u>674</u>
------------------	---------------

2. 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 maintains insurance of \$62,000 on the Town Hall and \$5,000 on its contents, \$70,000 on the Community Building and \$8,000 on its contents and \$40,000 on a third building. In addition, general liability insurance coverage is maintained for all three properties for \$100,000 per occurrence and \$100,000 in the aggregate. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The Town does not carry flood insurance as it has only three small buildings with minimal contents and they are not located in flood prone areas.

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 Town Clerk and the Finance Officer are individually bonded for \$50,000 each. The Mayor is covered for \$10,000.

C. Fund Balance

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

Total fund balance – General Fund	\$ <u>216,749</u>
Less:	
Stabilization by State Statute	5,323
Streets – Powell Bill	18,656
Subsequent year's expenditures	20,000
Unassigned	172,770

NOTE 4 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

On January 30, 2020, the World Health Organization declared the coronavirus “COVID-19” outbreak a “Public Health Emergency of International Concern” and on March 11, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of COVID-19 include restrictions on travel, quarantines, or “stay-at-home” restrictions in certain areas and forced closures for certain types of public places and businesses. COVID-19 and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies and financial markets globally, including that of the Town. While it is unknown how long these conditions will last and what the complete financial impact will be, the Town is closely monitoring the impact of the COVID-19 pandemic on all aspects of their operations and are unable at this time to predict the continued impact that COVID-19 will have on their services, financial position, and operating results in future periods due to numerous uncertainties

**INDIVIDUAL FUND
FINANCIAL STATEMENTS**

MAJOR GOVERNMENTAL FUNDS

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

TOWN OF MCFARLAN, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2020

Exhibit A-1
Page 1 of 2

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues			
Ad valorem taxes:			
Taxes	\$ -	\$ 9,683	\$ -
Interest	-	70	-
Total	<u>9,800</u>	<u>9,753</u>	<u>(47)</u>
Unrestricted intergovernmental revenues			
Local option sales tax	-	28,104	-
Utility franchise tax / piped natural gas tax	-	2,405	-
Total unrestricted intergovernmental revenues	<u>20,850</u>	<u>30,509</u>	<u>9,659</u>
Restrictd intergovernmental revenues			
Powell Bill allocation	-	4,502	-
Total restrictd intergovernmental revenues	<u>4,500</u>	<u>4,502</u>	<u>2</u>
Investment earnings	<u>1,500</u>	<u>1,418</u>	<u>(82)</u>
Miscellaneous	<u>2,000</u>	<u>1,734</u>	<u>(266)</u>
Total revenues	<u>38,650</u>	<u>47,916</u>	<u>9,266</u>
Expenditures			
General government			
Salaries and employee benefits	-	9,968	-
Other operating expenditures	-	19,549	-
Total general government	<u>28,750</u>	<u>29,517</u>	<u>(767)</u>
Transportation			
Streets and Highways			
Other operating expenditures	-	11,002	-
Total transportation	<u>9,900</u>	<u>11,002</u>	<u>(1,102)</u>
Total expenditures	<u>38,650</u>	<u>40,519</u>	<u>(1,869)</u>

TOWN OF MCFARLAN, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2020

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Revenues over (under) expenditures	<u>-</u>	<u>7,397</u>	<u>7,397</u>
Fund balance appropriated	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and Fund balance appropriated over expenditures	<u>\$ -</u>	<u>7,397</u>	<u>\$ 7,397</u>
Fund balance, beginning		<u>209,352</u>	
Fund balance, ending		<u>\$ 216,749</u>	

Other Schedules

This section includes additional information on property taxes.

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

TOWN OF MCFARLAN, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
For the Fiscal Year Ended June 30, 2020

Exhibit B-1

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2019</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance 30-Jun-20</u>
2019-2020	\$ -	\$ 9,742	9,531	211
2018-2019	323	-	57	266
2017-2018	104	-	55	49
2016-2017	105	-	55	50
2015-2016	104	-	55	49
2014-2015	49	-	-	49
2013-2014	-	-	-	-
2012-2013	-	-	-	-
2011-2012	-	-	-	-
2010-2011	-	-	-	-
2009-2010	-	-	-	-
	<u>685</u>	<u>9,742</u>	<u>9,753</u>	<u>674</u>
Less: Allowance for uncollectible accounts: Ad valorem taxes receivable				<u>-</u>
Ad valorem taxes receivable - net				<u>\$ 674</u>
Reconciliation with revenues:				
Taxes - ad valorem - General Fund				\$ 9,753
Releases and adjustments				70
Penalties and interest				<u>(70)</u>
Total collections and credits				<u>\$ 9,753</u>

TOWN OF MCFARLAN, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
For the Fiscal Year Ended June 30, 2020

Exhibit B-2

	Town-Wide Levy			Total Levy	
	Property	Rate	Total	Property	Registered
	Valuation		Levy	excluding	Motor
				Registered	Motor
				Vehicles	Vehicles
Original levy:					
Property taxes at current year's rate	\$ 3,364,138	\$.29	\$ 9,756	\$ 8,252	\$ 1,504
Penalties	-		-	-	-
Total	<u>\$ 3,364,138</u>	<u>\$.29</u>	<u>\$ 9,756</u>	<u>\$ 8,252</u>	<u>\$ 1,504</u>
Abatements:	<u>(4,828)</u>	<u>\$.29</u>	<u>(14)</u>	<u>-</u>	<u>(14)</u>
Total property valuation	<u>\$ 3,359,310</u>				
Net levy			9,742	8,252	1,490
Uncollected taxes at June 30, 2020			<u>211</u>	<u>211</u>	<u>-</u>
Current year's taxes collected			<u>\$ 9,531</u>	<u>\$ 8,041</u>	<u>\$ 1,490</u>
Current levy collection percentage			<u>97.83%</u>	<u>97.44%</u>	<u>100.00%</u>