

TOWN OF STANLEY, NORTH CAROLINA

BASIC FINANCIAL STATEMENTS

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

And Report of Independent Auditor

TOWN OF STANLEY, NORTH CAROLINA

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FINANCIAL SECTION

Report of Independent Auditor

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We 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 Town'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 Town's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall 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, 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 as of June 30, 2020, and the respective changes in financial position and, where applicable, cash flows 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.

Emphasis of Matter

As discussed in Note 6 to the basic financial statements, the Town had not properly capitalized capital assets to construction in progress in the prior years. As a result, capital assets and net position as of June 30, 2019 has been restated. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town. The individual fund statements and schedules, other schedules as well as the accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act*, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements and schedules, other schedules, and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate 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, this information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 29, 2021 on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that 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 the Town's internal control over financial reporting and compliance.

Cheryl Behant LLP

Charlotte, North Carolina
January 29, 2021

MANAGEMENT'S DISCUSSION AND ANALYSIS

TOWN OF STANLEY, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

As management of the Town of Stanley (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town 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 exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$14,844,007 (net position).
- The government's total net position increased \$853,984 (before the restatement) due to an increase in the business-type activities net position of \$1,776,076 offset by a decrease in the governmental activities net position of \$922,092.
- As of the close of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$2,007,106 with a net increase of \$684,744 in fund balance.
- Approximately 42.95% of this total amount, or \$862,034 is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,145,072, or 31.21%, of total General Fund expenditures for the fiscal year.
- The Town's total debt decreased by \$138,791 during the current fiscal year. A key factor in this decrease was regular debt payments made during the year on existing debt offset by issuance of a new bank loan of \$700,000 in December 2019.
- The Town has an A1 bond rating.

Overview of the Financial Statements

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

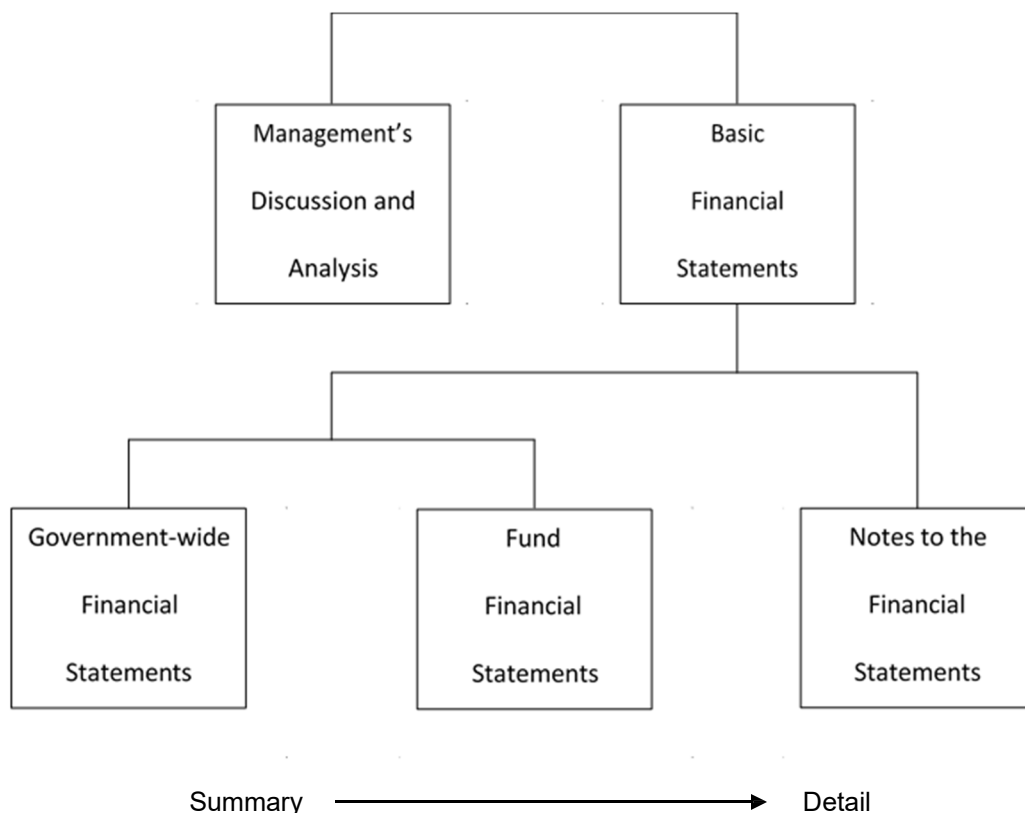
TOWN OF STANLEY, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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

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

TOWN OF STANLEY, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

Government-Wide Financial Statements

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

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

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

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, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or noncompliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for 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 Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town 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 council; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The Town has one kind of proprietary fund. An *Enterprise Fund* is used to report the same function presented as a business-type activity in the government-wide financial statements. The Town uses an enterprise fund to account for its water and sewer activity. This fund is the same as that function shown in the business-type activity in the Statement of Net Position and the Statement of Activities.

TOWN OF STANLEY, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 12 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 41 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 (the "State"). 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.

Government-Wide Financial Analysis

Town of Stanley's Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2019					
	2020	(Restated)	2020	2019	2020	2019
Current and other assets	\$ 2,144,444	\$ 1,823,346	\$ 1,509,139	\$ 1,670,015	\$ 3,653,583	\$ 3,493,361
Capital assets	4,775,613	5,675,133	14,438,779	12,913,809	19,214,392	18,588,942
Deferred outflows of resources	317,221	344,112	92,817	100,287	410,038	444,399
Total assets and deferred outflows of resources	7,237,278	7,842,591	16,040,735	14,684,111	23,278,013	22,526,702
Long-term liabilities outstanding	2,501,415	1,832,141	4,914,472	5,276,560	7,415,887	7,108,701
Other liabilities	121,154	484,800	808,640	870,378	929,794	1,355,178
Deferred inflows of resources	75,394	64,243	12,931	8,557	88,325	72,800
Total liabilities and deferred inflows of resources	2,697,963	2,381,184	5,736,043	6,155,495	8,434,006	8,536,679
Net Position:						
Net investment in capital assets	3,428,345	4,882,113	9,342,223	7,401,796	12,770,568	12,283,909
Restricted	850,902	709,205	-	-	850,902	709,205
Unrestricted	260,068	(129,911)	962,469	1,126,820	1,222,537	996,909
Total Net Position	\$ 4,539,315	\$ 5,461,407	\$ 10,304,692	\$ 8,528,616	\$ 14,844,007	\$ 13,990,023

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town exceeded liabilities and deferred inflows by \$14,844,007 as of June 30, 2020. The Town's net position increased by \$853,984 for the fiscal year ended June 30, 2020. The largest portion (86.03%) of net position reflects the Town's net investment in capital assets (e.g. land, buildings, and machinery and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town'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's net position, \$862,034, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,211,405 is unrestricted.

TOWN OF STANLEY, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.85%, which is comparable to the statewide average.

Town of Stanley's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2020	2019 (Restated)	2020	2019	2020	2019
Revenues						
Program revenues:						
Charges for services	\$ 343,321	\$ 330,473	\$ 2,837,045	\$ 2,560,462	\$ 3,180,366	\$ 2,890,935
Operating grants and contributions	146,202	126,884	-	-	146,202	126,884
Capital grants and contributions	1,423,787	696,443	-	-	1,423,787	696,443
Sale of capital assets	194,473	-	-	-	194,473	-
Capital contributions	-	-	-	-	-	-
General revenues:						
Property taxes	1,858,645	1,546,853	-	-	1,858,645	1,546,853
Other taxes	-	243	-	-	-	243
Grants and contributions not restricted to specific programs	886,476	819,030	1,981,442	-	2,867,918	819,030
Other	134,112	90,027	3,538	6,389	137,650	96,416
Total Revenues	4,987,016	3,609,953	4,822,025	2,566,851	9,809,041	6,176,804
Expenses:						
General government	1,212,095	313,621	-	-	1,212,095	313,621
Public safety	1,668,107	1,824,238	-	-	1,668,107	1,824,238
Public works	2,542,838	465,028	-	-	2,542,838	465,028
Parks and recreation	459,849	546,485	-	-	459,849	546,485
Interest on long-term debt	26,219	21,413	-	-	26,219	21,413
Water and sewer	-	-	3,045,949	2,994,239	3,045,949	2,994,239
Total Expenses	5,909,108	3,170,785	3,045,949	2,994,239	8,955,057	6,165,024
Change in net position	(922,092)	439,168	1,776,076	(427,388)	853,984	11,780
Net position, July 1, as previously reported	5,461,407	4,931,047	8,528,616	8,956,004	13,990,023	13,887,051
Restatement (See Note 6)	-	91,192	-	-	-	91,192
Net position, July 1, as restated	5,461,407	5,022,239	8,528,616	8,956,004	13,990,023	13,978,243
Net position, June 30	\$ 4,539,315	\$ 5,461,407	\$ 10,304,692	\$ 8,528,616	\$ 14,844,007	\$ 13,990,023

Governmental Activities – Governmental activities decreased the Town's net position by \$922,092 (excluding the restatement). This was primarily due to the completed Community Development Block Grant Sewer Project being contributed to the Water and Sewer Fund of \$1,981,442.

Business-type Activities – Business-type activities increased the Town's net position by \$1,776,076. Key elements of this increase is a result of a capital contribution to the water system for the completed Community Development Block Grant Sewer Project of \$1,981,442.

TOWN OF STANLEY, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town's fund balance available in the General Fund was \$1,145,072 while total fund balance reached \$1,908,585. The Town currently has an available fund balance of 31.21% of General Fund expenditures, while total fund balance represents 52.02% of the same amount.

At June 30, 2020, the governmental funds of the Town reported a combined fund balance of \$1,995,974 with a net increase in fund balance of \$673,612.

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 Fund – The Town's proprietary fund provides 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 \$962,469. The total change in net position was an increase of \$1,776,076.

Capital Asset and Debt Administration

Capital Assets – The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2020 totaled \$19,214,392 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year included the following:

- Town hall expansion
- Police radios
- Downtown revitalization
- CDBG Sewer Rehabilitation Project

TOWN OF STANLEY, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2020

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

	Governmental Activities		Business-Type Activities		Total	
	2020	2019 (As Restated)	2020	2019	2020	2019
Land	\$ 342,169	\$ 476,232	\$ 624,775	\$ 624,775	\$ 966,944	\$ 1,101,007
Construction in progress	-	566,503	-	-	-	566,503
Buildings and systems	2,274,273	2,374,730	21,753	22,783	2,296,026	2,397,513
Improvements other than buildings	557,202	592,965	13,683,604	12,131,379	14,240,806	12,724,344
Machinery and equipment	389,264	318,669	-	-	389,264	318,669
Infrastructure	927,900	960,679	-	-	927,900	960,679
Vehicles and motorized equipment	284,805	385,355	108,647	134,872	393,452	520,227
Total	<u>\$ 4,775,613</u>	<u>\$ 5,675,133</u>	<u>\$ 14,438,779</u>	<u>\$ 12,913,809</u>	<u>\$ 19,214,392</u>	<u>\$ 18,588,942</u>

Additional information on the Town's capital assets can be found in Note 2(A)(4) of the Basic Financial Statements.

Long-term Debt – As of June 30, 2020, the Town had total bonded debt outstanding of \$270,000. Of this, the entire amount is backed by the full faith and credit of the Town.

**Town of Stanley's Outstanding Debt
General Obligation Bonds
Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
General obligation bonds	\$ -	\$ -	\$ 270,000	\$ 360,000	\$ 270,000	\$ 360,000
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 270,000</u>	<u>\$ 360,000</u>	<u>\$ 270,000</u>	<u>\$ 360,000</u>

The Town's total debt decreased by \$138,791 during the current fiscal year related to regular debt payments made during the year and a new bank loan proceeds during the year related to the addition to Town Hall and a lease agreement for police radios.

As mentioned in the financial highlights section of this document, the Town has an A1 bond rating from Moody's Investor Service. This bond rating is a clear indication of the sound financial condition of the Town. This achievement is a primary factor in keeping interest costs low on the Town's outstanding debt.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town is \$25,497,594. The Town has no bonds authorized or unissued as of June 30, 2020.

Additional information regarding the Town's long-term debt can be found in Note 2(B)(5) of this report.

TOWN OF STANLEY, NORTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2020

Economic Factors, Next Year’s Budgets and Rates, and Budget Highlights for the Fiscal Year Ending June 30, 2021

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

- The Town completed a Community Development Block Grant (“CDBG”) in December of 2019. This sewer rehabilitation project replaced the oldest part of our collection system. Prior to the rehab project being initiated, the Town of Stanley conducted flow meter testing in this area and knew that during rain events the system took on a tremendous amount of inflow. As anticipated, we have seen a reduction in the amount of storm water that is metered through the system. Since this project has been closed out, the Town will work with consultants to seek additional CDBG funding to continue to improve our sewer and water systems. The completion of this project will also result in the capitalization of the remaining part of the project, that was not capitalized in last year’s budget.
- The Town saw a significant increase in zoning applications during the previous fiscal year. We continue to see this increase being sustained in the current budget year. The key factors driving the increases include ongoing development of Arbordale subdivision, Bennington Creek subdivision, and the new home market of smaller homes being constructed in a unique market throughout the town. This market also includes construction of duplex multi-family housing units. In fiscal year 2018-19 the Town processed 108 zoning permits and collected \$12,600. In fiscal year 2019-2020 that number increased to 136 permits with the collection of \$25,175.00. In the current fiscal year, we have issued 189 permits and collected \$50,000 in fees. It is anticipated that these numbers will continue to rise in the fiscal year 2020-21.
- Arbordale Subdivision began selling lots to construct new homes. In addition to the initial 240 homes, the developer applied and was approved to construct an additional 80 homes in this subdivision. Bennington Creek Subdivision began selling lots to construct new homes. Meritage Homes has submitted plans to develop a new home subdivision that will include a total of 300 homes. The homes will be in the \$240,000 price point and up. DSG applied for subdivision to include 111 new homes and 50 Townhomes in the northern portion of the Town. The homes proposed to be constructed are in the price point of \$240 and up. Although this development has not been approved as of the date of this report, we anticipate some version of their proposed development will take place.
- The Town’s property tax base will continue to grow 2021 due to new home construction as well as a strong real estate market, commercial development, industrial investment. The Town continued to see additional investment in our industrial park by current occupants. SC Johnson have continued to expand office and production bricks and mortar. A new climate-controlled storage facility was also constructed in the industrial park. Circle K purchased a lot at the corner of Highway 27 and East Dallas Road and will construct a 5,000 square foot convenience store and a large gas canopy. This will be a significant investment replacing a fifty-year-old used car business. The Town of Stanley sold the Dover building property located at 226 South Main Street. This building is currently being upfitted to house a restaurant. This will be a significant investment replacing a vacant building previously generating no property tax revenue due to being owned by the Town of Stanley. A vacant property, which has been vacant for at least ten years located at 100 North Main Street was purchased and upfitted and now houses Stanley Hardware, a significant investment resulting in an increase in tax base.
- The vacant bank building located on South Main Street was sold and is being upfitted to house a Domino’s Pizza. This was a significant investment increasing the tax base of that building and lot.

TOWN OF STANLEY, NORTH CAROLINA

MANAGEMENT’S DISCUSSION AND ANALYSIS

JUNE 30, 2020

- The Town of Stanley, like many other municipalities and local government across the Country anticipated significant revenues losses due to the novel strain of coronavirus (“COVID-19”) pandemic. These losses were anticipated for the most part in sales tax revenues. The Town adjusted for those anticipated losses by holding the line on the operating budget by not including capital outlay projects, equipment, and vehicles. The sales tax projected revenues were also reduced. The actual losses were not as much as anticipated. The Town of Stanley also submitted a reimbursement request through Gaston County for CARES funding. The total amount requested was \$27,000. Additional CARES funding and extended reimbursement dates will allow for the Town to request additional CARES funding to offset public safety and other eligible expenses.
- The Town of Stanley received a \$50,000 grant from SC Johnson Company. This grant assisted Town of Stanley utility customers impacted by the COVID-19 pandemic. A portion of the funds was used to purchase groceries, with a balance of the funds available to assist utility customers the remainder of the 2020-21 budget and the 2021-22 budget. This will help offset aged accounts for the Water and Sewer Fund.

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 Heath R. Jenkins, Town Manager, Stanley Town Hall, 416 Highway 27 S, Stanley, NC 28164.

BASIC FINANCIAL STATEMENTS

TOWN OF STANLEY, NORTH CAROLINA
STATEMENT OF NET POSITION

EXHIBIT 1

JUNE 30, 2020

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 1,353,615	\$ 940,842	\$ 2,294,457
Restricted cash and cash equivalents	400,514	235,950	636,464
Taxes receivables, net	26,305	-	26,305
Accounts receivable, net	64,156	332,347	396,503
Due from other governments	299,854	-	299,854
Total Current Assets	2,144,444	1,509,139	3,653,583
Noncurrent Assets:			
Capital Assets:			
Land, non-depreciable improvements, and construction in progress	342,169	624,775	966,944
Other capital assets, net of depreciation	4,433,444	13,814,004	18,247,448
Total Capital Assets	4,775,613	14,438,779	19,214,392
Total Assets	6,920,057	15,947,918	22,867,975
DEFERRED OUTFLOWS OF RESOURCES			
Pension and OPEB deferrals	317,221	81,763	398,984
Charge on refunding	-	11,054	11,054
Total Deferred Outflows of Resources	317,221	92,817	410,038
LIABILITIES			
Current Liabilities:			
Accounts payable and accrued liabilities	71,154	161,212	232,366
Security deposit	50,000	-	50,000
Current portion of long-term liabilities	262,363	411,478	673,841
Payable from restricted assets	-	235,950	235,950
Total Current Liabilities	383,517	808,640	1,192,157
Long-term liabilities:			
Net pension liability (LGERS)	397,459	126,332	523,791
Total pension liability (LEOSSA)	513,117	-	513,117
Total OPEB liability	135,854	42,001	177,855
Due in more than one year	1,192,622	4,746,139	5,938,761
Total Liabilities	2,622,569	5,723,112	8,345,681
DEFERRED INFLOWS OF RESOURCES			
Pension and OPEB deferrals	75,394	12,931	88,325
Total Deferred Inflows of Resources	75,394	12,931	88,325
NET POSITION			
Net investment in capital assets	3,428,345	9,342,223	12,770,568
Restricted for:			
Stabilization by State Statute	362,999	-	362,999
Other functions	487,903	-	487,903
Unrestricted	260,068	962,469	1,222,537
Total Net Position	\$ 4,539,315	\$ 10,304,692	\$ 14,844,007

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

TOWN OF STANLEY, NORTH CAROLINA
STATEMENT OF ACTIVITIES

EXHIBIT 2

YEAR ENDED JUNE 30, 2020

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 1,212,095	\$ 25,025	\$ -	\$ -	\$ (1,187,070)	\$ -	\$ (1,187,070)
Public safety	1,668,107	2,870	41,637	8,848	(1,614,752)	-	(1,614,752)
Public works	2,542,838	284,975	104,565	-	(2,153,298)	-	(2,153,298)
Parks and recreation	459,849	30,451	-	1,414,939	985,541	-	985,541
Interest on long-term debt	26,219	-	-	-	(26,219)	-	(26,219)
Total Governmental Activities	5,909,108	343,321	146,202	1,423,787	(3,995,798)	-	(3,995,798)
Business-type Activities:							
Water and sewer	3,045,949	2,837,045	-	1,981,442	-	1,772,538	1,772,538
Total Business-type Activities	3,045,949	2,837,045	-	1,981,442	-	1,772,538	1,772,538
Total Primary Government	\$ 8,955,057	\$ 3,180,366	\$ 146,202	\$ 3,405,229	(3,995,798)	1,772,538	(2,223,260)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					1,858,645	-	1,858,645
Grants and contributions not restricted to specific programs					886,476	-	886,476
Unrestricted investment earnings					11,414	3,538	14,952
Miscellaneous					122,698	-	122,698
Sale of capital assets					194,473	-	194,473
Total general revenues					3,073,706	3,538	3,077,244
Change in net position					(922,092)	1,776,076	853,984
Net position, beginning of year, as previously reported					4,894,904	8,528,616	13,423,520
Restatement (Note 6)					566,503	-	566,503
Net position, beginning of year, as restated					5,461,407	8,528,616	13,990,023
Net position, end of year					\$ 4,539,315	\$ 10,304,692	\$ 14,844,007

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

TOWN OF STANLEY, NORTH CAROLINA
BALANCE SHEET – GOVERNMENTAL FUNDS

EXHIBIT 3

JUNE 30, 2020

	Major Fund			
	General	Community Development Block Grant	Total Non-Major Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,266,226	\$ -	\$ 87,389	\$ 1,353,615
Restricted cash and cash equivalents	400,514	-	-	400,514
Receivables, net:				
Taxes	26,305	-	-	26,305
Accounts	64,156	-	-	64,156
Due from other governments	299,854	-	-	299,854
Total Assets	<u>\$ 2,057,055</u>	<u>\$ -</u>	<u>\$ 87,389</u>	<u>\$ 2,144,444</u>
LIABILITIES				
Accounts payable and accrued liabilities	\$ 71,154	\$ -	\$ -	\$ 71,154
Security deposit	50,000	-	-	50,000
Total Liabilities	<u>121,154</u>	<u>-</u>	<u>-</u>	<u>121,154</u>
DEFERRED INFLOWS OF RESOURCES				
Property taxes receivable	26,305	-	-	26,305
License fees receivable	1,011	-	-	1,011
Total Deferred Inflows of Resources	<u>27,316</u>	<u>-</u>	<u>-</u>	<u>27,316</u>
FUND BALANCES				
Restricted				
Stabilization by State Statute	362,999	-	-	362,999
Streets	400,514	-	-	400,514
Parks and recreation	-	-	87,389	87,389
Unassigned	1,145,072	-	-	1,145,072
Total Fund Balances	<u>1,908,585</u>	<u>-</u>	<u>87,389</u>	<u>1,995,974</u>
Total Liabilities, Deferred Inflows of Resources, and Fund Balances	<u>\$ 2,057,055</u>	<u>\$ -</u>	<u>\$ 87,389</u>	<u>\$ 2,144,444</u>

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

TOWN OF STANLEY, NORTH CAROLINA
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION

EXHIBIT 3

JUNE 30, 2020

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Ending fund balance - governmental funds	\$	1,995,974
Capital assets used in governmental activities are not financial resources, and therefore are not reported in the funds.		4,775,613
Deferred outflows of resources related to OPEB and pensions are not reported in the funds.		317,221
Earned revenues considered deferred inflows of resources in fund statements.		27,316
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.		
Gross long-term debt	(1,454,985)	
Net pension liability	(397,459)	
Total pension liability (LGERS)	(513,117)	
Total OPEB liability	<u>(135,854)</u>	
		(2,501,415)
Deferred inflows of resources related to OPEB and pensions are not reported in the funds.		<u>(75,394)</u>
Net position of governmental activities	\$	<u><u>4,539,315</u></u>

TOWN OF STANLEY, NORTH CAROLINA
EXHIBIT 4
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – GOVERNMENTAL FUNDS**

YEAR ENDED JUNE 30, 2020

	Major Fund			
	General	Community Development Block Grant	Total Non-Major Funds	Total Governmental Funds
Revenues:				
Ad valorem taxes	\$ 1,847,513	\$ -	\$ -	\$ 1,847,513
Unrestricted intergovernmental	886,476	-	-	886,476
Restricted intergovernmental	157,921	1,414,939	-	1,572,860
Permits and fees	25,025	-	-	25,025
Sales and services	315,426	-	-	315,426
Investment earnings	11,295	-	119	11,414
Miscellaneous	51,175	-	71,523	122,698
Total Revenues	3,294,831	1,414,939	71,642	4,781,412
Expenditures:				
Current:				
General government	1,027,298	-	-	1,027,298
Public safety	1,526,393	-	-	1,526,393
Public works	517,800	1,414,939	-	1,932,739
Parks and recreation	356,005	-	13,705	369,710
Debt service:				
Principal payments	214,928	-	-	214,928
Interest and fees	26,219	-	-	26,219
Total Expenditures	3,668,643	1,414,939	13,705	5,097,287
Excess of revenues over (under) expenditures	(373,812)	-	57,937	(315,875)
Other Financing Sources (Uses):				
Sale of capital assets	194,473	-	-	194,473
Transfers to other funds	-	-	(20,000)	(20,000)
Loan proceeds	795,014	-	-	795,014
Transfers from other funds	20,000	-	-	20,000
Total Other Financing Sources (Uses)	1,009,487	-	(20,000)	989,487
Net change in fund balance	635,675	-	37,937	673,612
Fund balances, beginning of year	1,272,910	-	49,452	1,322,362
Fund balances, end of year	\$ 1,908,585	\$ -	\$ 87,389	\$ 1,995,974

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

TOWN OF STANLEY, NORTH CAROLINA**EXHIBIT 4****RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES***YEAR ENDED JUNE 30, 2020*

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

Net changes in fund balances - total governmental funds		\$ 673,612
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 were more than depreciation in the current period.		
Capital outlay expenditures which were capitalized	1,990,695	
Capital assets disposed, less depreciation	(613,830)	
Transfer of capital assets to Water and Sewer Fund	(1,981,442)	
Depreciation expense for governmental assets	<u>(294,943)</u>	
		(899,520)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.		
New loans issued	(795,014)	
Principal payments on long-term debt	<u>240,766</u>	
		(554,248)
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in unavailable revenue for tax revenues	<u>11,132</u>	
		11,132
Contributions to the pension and OPEB plans in the current fiscal year are not included on the Statement of Activities.		
		125,641
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 obligation (LEOSSA)	(42,502)	
Pension obligation (LGERS)	(209,528)	
Compensated absences	(9,931)	
Other postemployment benefits (OPEB)	<u>(16,748)</u>	
		<u>(278,709)</u>
Total changes in net position of governmental activities		<u>\$ (922,092)</u>

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

TOWN OF STANLEY, NORTH CAROLINA**EXHIBIT 5****STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – GENERAL FUND***YEAR ENDED JUNE 30, 2020*

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 1,646,500	\$ 1,646,500	\$ 1,847,513	\$ 201,013
Unrestricted intergovernmental	782,500	782,500	886,476	103,976
Restricted intergovernmental	909,000	909,000	157,921	(751,079)
Permits and fees	10,000	10,000	25,025	15,025
Sales and services	303,000	303,000	315,426	12,426
Investment earnings	15,000	15,000	11,295	(3,705)
Miscellaneous	75,500	75,500	51,175	(24,325)
Total Revenues	3,741,500	3,741,500	3,294,831	(446,669)
Expenditures:				
Current:				
General government	463,050	1,263,050	1,027,298	235,752
Public safety	2,207,980	2,214,980	1,526,393	688,587
Public works	513,400	613,400	517,800	95,600
Parks and recreation	386,110	411,110	356,005	55,105
Principal payments	141,400	141,400	214,928	(73,528)
Interest expense	20,150	20,150	26,219	(6,069)
Total Expenditures	3,732,090	4,664,090	3,668,643	995,447
Revenues over expenditures	9,410	(922,590)	(373,812)	548,778
Other Financing Sources (Uses):				
Sale of capital assets	-	-	194,473	(194,473)
Loan proceeds	-	-	795,014	(795,014)
Transfers from other funds	-	-	20,000	(20,000)
Total Other Financing Sources (Uses)	-	-	1,009,487	(1,009,487)
Fund balance appropriated	(9,410)	922,590	-	(922,590)
Net change in fund balance	\$ -	\$ -	635,675	\$ 635,675
Fund balance, beginning of year			1,272,910	
Fund balance, end of year			\$ 1,908,585	

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

TOWN OF STANLEY, NORTH CAROLINA
STATEMENT OF NET POSITION – PROPRIETARY FUND

EXHIBIT 6

JUNE 30, 2020

	Water and Sewer Fund
ASSETS	
Current Assets:	
Cash and cash equivalents	\$ 940,842
Accounts receivable (net) - billed and unbilled	332,347
Restricted cash and cash equivalents	235,950
Total Current Assets	<u>1,509,139</u>
Noncurrent Assets:	
Capital assets:	
Land and other non-depreciable assets	624,775
Other capital assets, net of depreciation	13,814,004
Capital assets (net)	<u>14,438,779</u>
Total Noncurrent Assets	<u>14,438,779</u>
Total Assets	<u>15,947,918</u>
DEFERRED OUTFLOWS OF RESOURCES	
Pension and OPEB deferrals	81,763
Charge on refunding	11,054
Total Deferred Outflows of Resources	<u>92,817</u>
LIABILITIES	
Current Liabilities:	
Accounts payable and accrued liabilities	161,212
General obligation bonds payable - current	90,000
Current installments of other long-term debt	321,478
Liabilities payable from restricted assets:	
Customer deposits	235,950
Total Current Liabilities	<u>808,640</u>
Noncurrent Liabilities:	
Other postemployment benefits (OPEB)	42,001
Compensated absences	42,416
Net pension liability (LGERS)	126,332
General obligation bonds payable - noncurrent	180,000
Noncurrent installments of other long-term debt	4,523,723
Total Noncurrent Liabilities	<u>4,914,472</u>
Total Liabilities	<u>5,723,112</u>
DEFERRED INFLOWS OF RESOURCES	
Pension and OPEB deferrals	<u>12,931</u>
NET POSITION	
Net investment in capital assets	9,342,223
Unrestricted	962,469
Net position of business-type activities	<u><u>\$ 10,304,692</u></u>

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

TOWN OF STANLEY, NORTH CAROLINA**EXHIBIT 7****STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET
POSITION – PROPRIETARY FUND***YEAR ENDED JUNE 30, 2020*

	Water and Sewer Fund
Operating Revenues:	
Charges for services	\$ 2,442,472
Water and sewer taps and connection fees	164,918
Other operating revenues	<u>229,655</u>
Total Operating Revenues	<u>2,837,045</u>
Operating Expenses:	
Water department	1,328,941
Sewer department	1,185,170
Depreciation and amortization	<u>463,920</u>
Total Operating Expenses	<u>2,978,031</u>
Operating loss	<u>(140,986)</u>
Nonoperating Revenues (Expenses):	
Investment earnings	3,538
Interest and other charges	<u>(67,918)</u>
Total Nonoperating Expenses	<u>(64,380)</u>
Capital contributions	<u>1,981,442</u>
Change in net position	1,776,076
Total net position, beginning of year	<u>8,528,616</u>
Total net position, end of year	<u><u>\$ 10,304,692</u></u>

TOWN OF STANLEY, NORTH CAROLINA
STATEMENT OF CASH FLOWS – PROPRIETARY FUND

EXHIBIT 8

YEAR ENDED JUNE 30, 2020

	Water and Sewer Fund
Cash flows from operating activities:	
Cash received from customers	\$ 2,810,358
Cash paid for goods and services	(2,609,941)
Cash paid to or on behalf of employees for services	51,342
Customer deposits received	47,963
Net cash provided by operating activities	<u>299,722</u>
Cash flows from noncapital financing activities:	
Due from other funds	<u>90,542</u>
Net cash provided by noncapital financing activities	<u>90,542</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(7,448)
Payments on long-term borrowings	<u>(415,457)</u>
Net cash used by capital and related financing activities	<u>(422,905)</u>
Cash flows from investing activities:	
Interest income	3,538
Interest paid	<u>(67,918)</u>
Net cash used by investing activities	<u>(64,380)</u>
Net decrease in cash and cash equivalents	(97,021)
Cash and cash equivalents, beginning of year	<u>1,273,813</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,176,792</u></u>

(continued)

TOWN OF STANLEY, NORTH CAROLINA**EXHIBIT 8****STATEMENT OF CASH FLOWS – PROPRIETARY FUND (CONTINUED)***YEAR ENDED JUNE 30, 2020*

	<u>Water and Sewer Fund</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating loss	\$ (140,986)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation and amortization	463,920
Changes in assets, deferred outflows and inflows of resources, and liabilities:	
Increase in accounts receivable	(26,687)
Increase in deferred outflows of resources for pension and OPEB	7,470
Increase in net pension liability (LGERS)	23,063
Decrease in deferred inflows of resources for pension and OPEB	4,374
Decrease in accounts payable and accrued liabilities	(95,830)
Increase in customer deposits	47,963
Increase in OPEB liability	450
Increase in accrued vacation pay	15,985
Total adjustments	<u>440,708</u>
Net cash provided by operating activities	<u><u>\$ 299,722</u></u>

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Summary of significant accounting policies

The accounting policies of the Town of Stanley (the “Town”) conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected mayor and 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 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 nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

Fund Financial Statements – The fund financial statements provide information about the Town’s funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. The remaining governmental funds are 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 nonexchange transactions. Other nonoperating revenues are ancillary activities such as investment earnings and interest expense.

The Town reports the following major governmental funds:

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

CDBG Fund – This capital project fund is used to account for the Community Development Block Grant income and expenses.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Summary of significant accounting policies (continued)

The Town reports the following nonmajor governmental fund:

Recreation Fund – This fund is used to account for fundraising and other recreation activities.

The Town reports the following major enterprise fund:

Water and Sewer Fund – This fund is used to account for the Town's water and sewer operations. The fund is comprised of a subfund: *Water and Sewer Capital Projects Fund*. This subfund is used to account for the Town's sewer interconnect project. This fund has been consolidated in the Water and Sewer Fund for financial reporting purposes.

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. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and 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.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Summary of significant accounting policies (continued)

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

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Gaston 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 is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the Recreation Fund and the Water and Sewer Capital Projects Fund. The enterprise fund project is consolidated with its 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 \$2,500. 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, 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 [General Statute ("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.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Summary of significant accounting policies (continued)

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, 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 reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT-Government Portfolio, a Securities and Exchange Commission registered (2a-7) external investment pool, is measured at fair value, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

Non-participating interest earning contracts are measured at amortized cost.

Certificates of deposit with original maturities greater than three months that are not debt securities are included in "investments".

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

Governmental Activities:

General Fund

Streets	\$ 400,514
Total Governmental Activities	<u>\$ 400,514</u>

Business-type Activities:

Water and Sewer Fund

Customer deposits	\$ 235,950
Total Business-type Activities	<u>\$ 235,950</u>

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Summary of significant accounting policies (continued)

4. Ad Valorem Taxes Receivable

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

5. Allowances for Doubtful Accounts

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

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, \$2,500; buildings, improvements, substations, lines, and other plant and distribution systems, \$2,500; infrastructure, \$2,500; furniture and equipment, \$2,500; vehicles, \$2,500; and computer software and computer equipment, \$2,500. 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 cost. 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>
Infrastructure	40
Buildings	40
Improvements	40
Vehicles	5
Furniture and equipment	10
Computer equipment	3
Computer software	5

7. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and, therefore, it will not be recognized as an expense or expenditure until then. The Town has several items that meet the criterion: pension and OPEB related deferrals, and an unamortized loss on a bond defeasance for General Obligation Refunding bonds. In addition to liabilities, the statement of financial position can also 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 it will not be recognized as revenue until then. The Town has several items that meets the criterion for this category: prepaid taxes, property taxes receivable, license fees receivable, and pension and OPEB related deferrals.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Summary of significant accounting policies (continued)

8. Long-Term Obligations

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

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. 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 for the accumulation of up to 30 days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time.

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

10. Net Position/Fund Balances

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

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

The governmental fund types classify fund balances as follows:

Nonspendable Fund Balance – This classification 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.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Summary of significant accounting policies (continued)

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

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

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

Restricted for Parks and Recreation – portion of fund balance that is restricted by revenue source for recreation expenditures.

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

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

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

11. Pensions

The Town participates in a cost-sharing, multiple employer defined benefit pension plan that is administered by the State and the Local Governmental Employees' Retirement System ("LGERS").

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 positions of the defined benefit pension plan and additions to/deductions from the state-administered defined benefit pension plan fiduciary net position has been determined on the same basis as they are reported by the state-administered defined benefit pension plan. 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 when the Town has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and are payable in accordance with the terms of the state-administered defined benefit pension plan. Investments are reported at fair value.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 1—Summary of significant accounting policies (continued)

12. 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 exceeded authorized appropriations by \$79,597. This over expenditure was the result of a principal and interest payment on a new bank loan that was inadvertently excluded from the budget.

For the fiscal year ended June 30, 2020, the expenditures made in the Town's Water and Sewer Fund exceeded the authorized appropriations made by the governing board for the water department by \$11,401 and sewer department by \$44,136. The Town had not budgeted for additional invoices received after year-end that were required to be accrued.

Note 2—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, Dedicated and Pooled. 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 the unit's 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 of North Carolina ("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, and this risk may increase in periods of high cash flows. However, the State Treasurer enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2020, the Town's deposits had a carrying amount of \$997,058 and a bank balance of \$1,025,284. Of the bank balance, \$337,391 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2020, the Town's petty cash fund totaled \$600.

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities valued using directly observable quoted prices (unadjusted) in active markets for identical assets.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

2. Investments

At June 30, 2020, the Town had \$1,331,267 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAm by Standard & Poor's ("S&P") and is a Level 1 investment on the fair value hierarchy with six months or less maturity. The Town has no policy regarding credit risk. The Town had \$601,996 in certificates of deposit as of June 30, 2020.

3. 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	\$ 16,474
Accounts receivable	<u>6,500</u>
Total	22,974

Enterprise Funds

	<u>86,000</u>
Total allowance for doubtful accounts	<u><u>\$ 108,974</u></u>

TOWN OF STANLEY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

4. Capital Assets

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

	Balance July 1, 2019 (As restated)	Increases	Decreases	Balance June 30, 2020
Governmental activities:				
Capital assets not being depreciated				
Land	\$ 476,232	\$ -	\$ (134,063)	\$ 342,169
Construction in progress	566,503	1,414,939	(1,981,442)	-
Total capital assets not being depreciated	1,042,735	1,414,939	(2,115,505)	342,169
Capital assets being depreciated:				
Buildings	3,030,870	449,176	(545,662)	2,934,384
Other improvements	864,606	-	-	864,606
Equipment	1,191,299	126,580	-	1,317,879
Vehicles and motor equipment	1,650,248	-	-	1,650,248
Infrastructure	1,311,165	-	-	1,311,165
Total capital assets being depreciated	8,048,188	575,756	(545,662)	8,078,282
Less Accumulated Depreciation:				
Buildings	656,140	69,866	(65,895)	660,111
Other improvements	271,641	35,763	-	307,404
Equipment	872,630	55,985	-	928,615
Vehicles and motor equipment	1,264,893	100,550	-	1,365,443
Infrastructure	350,486	32,779	-	383,265
Total accumulated depreciation	3,415,790	\$ 294,943	\$ (65,895)	3,644,838
Total capital assets being depreciated, net	4,632,398			4,433,444
Governmental activities capital assets, net	\$ 5,675,133			\$ 4,775,613

The beginning balance does not agree to the ending balance for fiscal year 2019 due to a prior period adjustment (See Note 6) relating to a CDBG Project that was not capitalized in the prior year. This resulted in an increase in capital assets for Governmental Activities and net position of \$566,503.

TOWN OF STANLEY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

Depreciation expense was charged to functions/programs as follows:

General government	\$ 66,180
Public safety	112,868
Public works	43,596
Parks and recreation	72,299
	<u>\$ 294,943</u>

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020
Business-type Activities:				
Water and Sewer Fund				
Capital assets not being depreciated				
Land	\$ 624,775	\$ -	\$ -	\$ 624,775
Total capital assets not being depreciated	<u>624,775</u>	<u>-</u>	<u>-</u>	<u>624,775</u>
Capital assets being depreciated:				
Plant and distribution systems	19,151,615	1,984,890	-	21,136,505
Buildings	50,876	-	-	50,876
Equipment, including vehicles	458,696	4,000	-	462,696
Total capital assets being depreciated	<u>19,661,187</u>	<u>1,988,890</u>	<u>-</u>	<u>21,650,077</u>
Less Accumulated Depreciation:				
Plant and distribution systems	7,020,236	432,665	-	7,452,901
Buildings	28,093	1,030	-	29,123
Equipment, including vehicles	323,824	30,225	-	354,049
Total accumulated depreciation	<u>7,372,153</u>	<u>\$ 463,920</u>	<u>\$ -</u>	<u>7,836,073</u>
Total capital assets being depreciated, net	<u>12,289,034</u>			<u>13,814,004</u>
Business-type activities capital assets, net	<u>\$ 12,913,809</u>			<u>\$ 14,438,779</u>

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

Commitments

The Town has entered into a contract with another municipality for the purchase of water for resale, for a term of 30 years, which began February 1, 2005. Effective, July 1, 2012, the Town agrees to pay a rate of \$3.35 per 1,000 gallons of water purchased. In addition, the Town has an agreement with the municipality to treat wastewater at \$3.07 per 1,000 gallons. This agreement is for a period of five years with an option to renew and extend the term for an additional five-year period contingent upon the Town retaining a certain large industrial customer.

The Town entered into an agreement on March 4, 2015 with a private waste collection contractor. The agreement calls for the contractor to provide the Town with solid waste collection services for a five-year period ending March 4, 2020. The agreement is for once per week residential collection of solid waste and every other week residential collection of recyclables at a rate of \$8.63 and \$3.19, respectively, per cart. The financial commitment on the part of the Town as of June 30, 2020 is approximately \$250,000 per year. The current contract has expired but the Town continues to utilize this waste collection contractor on a month to month basis.

The Town signed an agreement with the City of Gastonia on August 6, 2013 to participate with them in construction of the sewer interconnect, and the City of Gastonia agreed to share the cost of construction with a grant of \$1,000,000 to be paid in five installments of \$150,000 beginning annually on the first anniversary of the date that wastewater is first treated for the Town by the City of Gastonia. The balance will be paid in five annual installments of \$50,000 beginning on the sixth anniversary of the date that wastewater is first treated for the Town. These payments shall be paid only from revenues generated by operation of the City of Gastonia's water and sewer utility (Two Rivers Utilities). If revenues generated are insufficient to make payments under this agreement, failure to make such payment shall not be deemed a breach of the agreement. The Town agrees to use a minimum of 117,000,000 gallons per year of capacity or the City of Gastonia will bill the Town for the difference between the usage and the minimum. The billing rate will be the prevailing rate as set for municipal wholesale customers, and as revised from time to time which is currently \$3.80 per 1,000 gallons.

5. Water Supply Rights

The Town, Gaston County, and the City of Mount Holly, on February 19, 1993, entered into an agreement to construct a water line, meter, and a storage tank to allow the Town to purchase water from Mount Holly. The Town paid \$250,000 as its share of the project over a ten-year period beginning with acceptance of the project, which was completed in November 1995. The Town also entered into an agreement with Mount Holly to purchase water and have the right to buy water (see further discussion at Note II.B.4).

The only fixed asset acquired by the Town was its portion of the master meter, valued at \$19,000. The remaining \$231,000 has been fully amortized.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

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 LGERS, a cost-sharing multiple-employer defined benefit pension plan administered by the State. 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 (the “General Assembly”). Management of the plan is vested in the LGERS Board of Trustees, which consist of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The LGERS is included in the Comprehensive Annual Financial Report (“CAFR”) for the State. 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 G.S. 128-30 and may be amended only by the General Assembly. The Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town’s contractually required contribution rate for the year ended June 30, 2020 was 9.70% of compensation for LEOs and 8.95% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$125,641 for year ended June 30, 2020.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

Refunds of Contributions – The 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 \$523,791 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2020, the Town's proportion was 0.01918% (measured as of June 30, 2019), which was an increase of .00084% from its proportion (measured as of June 30, 2018).

For the year ended June 30, 2020, the Town recognized pension expense of \$239,000. 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	\$ 89,686	\$ -
Changes of assumptions	85,369	-
Net difference between projected and actual earnings on pension plan investments	12,776	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	20,240	2,810
Employer contributions subsequent to the measurement date	125,641	-
Total	<u>\$ 333,712</u>	<u>\$ 2,810</u>

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

The Town reported \$125,641 as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,

2021	\$	96,745
2022		34,895
2023		55,829
2024		17,792
	\$	<u>205,261</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	3.00%
Salary increases	3.5% to 8.10% including inflation and productivity factor
Investment rate of return	7.00%, net of pension plan investment expense, including inflation

The plan currently uses mortality rates based on the RP-2014 *Total Data Set for Health Annuitants Mortality Table*, 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 as of December 31, 2014.

Future ad hoc cost-of-living adjustment amounts are not considered to be substantively automatic, and therefore are not included in the measurement.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

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 premiums 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 weighing 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:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29%	1.4%
Global Equity	42%	5.3%
Real Estate	8%	4.3%
Alternatives	8%	8.9%
Credit	7%	6.0%
Inflation Protection	6%	4.0%
Total	100%	

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 3.05%. All rates of return and inflation are annualized.

Discount Rate – The discount rate used to measure the total pension liability was 7.0%. 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.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate – The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.0%, 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 (6.0%) or one percentage point higher (8.0%) than the current rate:

	1% Decrease (6.0%)	Current Discount Rate (7.0%)	1% Increase (8.0%)
Town's proportionate share of the net pension liability (asset)	\$ 1,198,005	\$ 523,791	\$ (36,618)

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

b. Law Enforcement Officers Special Separation Allowance

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

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

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	13
Total	<u>13</u>

A separate report was not issued for the plan.

Summary of Significant Accounting Policies –

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

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in Governmental Accounting Standards Board ("GASB") Statement 73.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

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

Inflation	2.50%
Salary increases	3.50 to 7.35%, including inflation and productivity factor
Discount rate	3.26%

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2018. The Municipal Bond Index Rate decreased from 3.64% to 3.26%.

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

Deaths After Retirement (Healthy): RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 104% for males and 100% for females.

Deaths Before Retirement: RP-2014 Employee base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015.

Deaths After Retirement (Beneficiary): RP-2014 Healthy Annuitant base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 123% for males and females.

Deaths After Retirement (Disabled): RP-2014 Disabled Retiree base rates projected to 2015 using MP-2015, projected forward generationally from 2015 using MP-2015. Rates are adjusted by 103% for males and 99% for females.

Contributions – The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the General Assembly. There were no contributions made by employees. Administrative costs of the Separation Allowance are financed through investment earnings. The Town had no benefit payments during the reporting period.

TOWN OF STANLEY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

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

At June 30, 2020, the Town reported a total pension liability of \$513,117. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was rolled forward to December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the Town recognized pension expense of \$42,502.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 37,581	\$ 31,001
Changes of assumptions	26,249	16,419
	<u>\$ 63,830</u>	<u>\$ 47,420</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,

2021	\$ 7,403
2022	7,403
2023	7,459
2024	(6,274)
2025	419
	<u>\$ 16,410</u>

Sensitivity of the Towns Total Pension Liability to Changes in the Discount Rate – The following presents the Town's total pension liability calculated using the discount rate of 3.26%, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is one percentage point lower (2.26%) or one percentage point higher (4.26%) than the current rate:

	1% Decrease (2.26%)	Current Discount Rate (3.26%)	1% Increase (4.26%)
Total pension liability	\$ 551,055	\$ 513,117	\$ 477,993

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

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

Beginning balance	\$	474,944
Service cost		17,811
Interest on total pension liability		17,288
Difference between expected and actual		(10,598)
Changes in assumptions or other inputs		13,672
Net Changes		38,173
Ending Balance of the Total Pension Liability	\$	513,117

Changes of assumptions: Changes of assumptions and other inputs reflect a change in the discount rate from 3.64% at December 31, 2018 to 3.26% at December 31, 2019 (measurement date).

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 as of December 31, 2014.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy – Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan.

d. Supplemental Retirement Income Plan for Employees Other than Law Enforcement Officers

Plan Description – All full-time employees of the Town other than law enforcement officers participate in the Supplemental Retirement Income Plan, a defined contribution plan. Participation begins after 90 days of employment.

Funding Policy – The Town voluntarily contributes each month an amount equal to 5% of each employee's salary, and all amounts contributed are vested immediately. Also, the employees may make voluntary contributions to the plan.

TOWN OF STANLEY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

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

The net pension liability for LGERS was measured as of June 30, 2019, and 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 for Law Enforcement Officers' Special Separation Allowance ("LEOSSA") was measured as of December 31, 2019, with an actuarial valuation date of December 31, 2018. The Town's proportion of the net pension liability was based on the Town's share of contributions to the pension plan relative to the contribution of all participating entities. Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Proportionate Share of Net Pension Liability (Asset)	\$ 523,791	\$ -	\$ 523,791
Proportion Share of Net Pension Liability (Asset)	0.01834%	n/a	
Total Pension Liability	-	513,117	513,117
Pension Expense	239,000	42,502	281,502

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	LGERS	LEOSSA	Total
Differences between expected and actual experience	\$ 89,686	\$ 37,581	\$ 127,267
Changes of assumptions	85,369	26,249	111,618
Net difference between projected and actual earnings on pension plan investments	12,776	-	12,776
Changes in proportion and differences between employer contributions and proportionate share of contributions	20,240	-	20,240
Employer contributions subsequent to the measurement date	125,641	-	125,641
Deferred Inflows of Resources			
Differences between expected and actual experience	\$ -	\$ 31,001	\$ 31,001
Changes of assumptions	-	16,419	16,419
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,810	-	2,810

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

e. Other Postemployment Benefits (“OPEB”)

Healthcare Benefits

Plan Description – Under the terms of a Town resolution, the Town administers a single-employer defined benefit healthcare plan (the “Retiree Health Plan”). The plan provides postemployment healthcare benefits to retirees of the Town who retire in good standing at age 55 or older and have 25 years of service. The Town pays the full cost of individual coverage for these benefits through private insurers. The insurance coverage will cease when the retiree reaches age 65 or becomes eligible for Medicare, whichever occurs first. At retirement, all retirees with at least 10 years of service have the option to purchase basic medical insurance at the Town’s group rate until age 65 or until they obtain insurance coverage through another source. The entire cost of this insurance is borne by the retiree. The Town Council may amend the benefit provisions. A separate report was not issued for the plan. The Retiree Health Plan has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statement 75. There are no authoritative requirement to pay OPEB as benefits come due.

Funding Policy – The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by the Board or Trustees. The Town has chosen to fund the healthcare benefits on a pay as you go basis. Postemployment expenditures are made from the general fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

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

Inactive Employees or Beneficiaries Currently Receiving Benefits	-
Inactive Members Entitled to but not yet Receiving Benefits	-
Active Employees	28
Total	28

Actuarial Assumptions

The town’s total OPEB liability of \$177,855 was measured as of June 30, 2019 and was determined by an actuarial valuation using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless other specified:

Inflation	2.5%
Salary increases	
General Employees	3.5% - 7.75% average, including inflation
Law Enforcement Officers	3.5% - 7.35% average, including inflation
Discount rate	3.50%
Healthcare cost trend rates	
Pre-Medicare	7.0% for 2019 decreasing to an ultimate rate of 4.5% by 2026

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

Changes in the Total OPEB Liability

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation were as follows:

	2020
Beginning balance	\$ 176,124
Service cost	20,242
Interest on the total pension liability	6,851
Changes of assumptions or other inputs	1,607
Difference between expected and actual experience	(26,969)
Ending balance of the total pension liability	<u>\$ 177,855</u>
Covered payroll	\$ 1,241,633
Total OPEB liability as a percentage of covered payroll	14.32%

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

Measurement	
Date	Rate
2017	3.56%
2018	3.89%
2019	3.50%

The discount rate used to measure the total OPEB liability was based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

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

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

The remaining actuarial assumptions used in the June 30, 2019 valuation were based on a review of recent plan experience done concurrently with the June 30, 2019 valuation.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.5%) or 1 percentage point higher (4.5%) than the current discount rate:

	1% Decrease (2.5%)	Current Discount Rate (3.5%)	1% Increase (4.5%)
Total OPEB Liability	\$ 199,682	\$ 177,855	\$ 158,657

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

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

	1% Decrease	Current Rate	1% Increase
Total OPEB Liability	\$ 151,781	\$ 177,855	\$ 210,046

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

For the year ended June 30, 2020, the Town recognized OPEB expense of \$22,632. At June 30, 2020, the town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 24,779
Changes of assumptions or other inputs	1,442	13,316
Total	<u>\$ 1,442</u>	<u>\$ 38,095</u>

Amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Years Ending June 30,

2021	\$ (4,461)
2022	(4,461)
2023	(4,461)
2024	(4,461)
2025	(4,461)
Thereafter	<u>(14,348)</u>
	<u>\$ (36,653)</u>

2. Other Employment Benefit

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

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

3. Deferred Outflows and Inflows of Resources

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

Contributions to pension plan in current fiscal year	\$	125,641
Pension deferrals		271,901
OPEB deferrals		1,442
Charge on refunding		11,054
	\$	<u>410,038</u>

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

Taxes receivable (General Fund)	\$	26,305
Vehicle licenses receivable (General Fund)		1,011
OPEB deferrals (Governmental Activities)		38,095
Pension deferrals (Governmental Activities)		50,230
	\$	<u>115,641</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 Town obtains general liability and auto liability coverage of \$2 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. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the North Carolina League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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

The Town does not carry flood insurance because the Town and its major properties are not in a flood plain as mapped by the State.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more of the Town's funds at any given time are performance bonded through a commercial surety bond. The Finance Officer is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

TOWN OF STANLEY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

5. Long-Term Obligations

a. Capital Leases

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

The agreement was executed on October 18, 2016 to lease certain office equipment and buy-out equipment from a previous lease agreement and requires 57 monthly payments of \$2,318.

The agreement was executed on December 15, 2019 to lease police radio equipment through a lease agreement and requires 5 annual payments of \$21,148.

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

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Equipment - Governmental Activities	\$ 177,735	\$ 34,594	\$ 143,141

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

<u>Years Ending June 30,</u>	
2021	\$ 48,964
2022	28,102
2023	21,148
2024	21,148
2025	21,148
Total minimum lease payments	140,510
Less amount representing interest	(11,664)
Present value of minimum lease payments	\$ 128,846

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

b. Installment Purchases

Direct borrowings - Notes payable at June 30, 2020 were comprised of the following individual issues:

Serviced by the General Fund:

\$315,000 payable to a bank, secured by the fire station building, payable in annual installments of \$16,578 plus interest at 4.5% through April 15, 2023.	\$ 49,752
\$440,000 payable to a bank, secured by a fire truck, payable in annual installments of \$49,885 including interest at 2.35% through September 23, 2024.	232,760
\$400,000 payable to a bank, secured by the gymnasium building, payable in annual installments of \$49,003 plus interest at 2.44% through April 15, 2026.	279,682
\$31,737 payable to a bank, secured by the vehicles, payable in annual installments of \$11,084 including interest at 2.37% through November 1, 2020.	5,277
\$30,810 payable to a bank, secured by the vehicles, payable in annual installments of \$11,126 including interest at 4.11% through December 5, 2021.	20,951
\$700,000 payable to a bank, secured by the Town Hall building, payable in annual installments of \$70,000 plus interest at 2.36% through June 1, 2029.	630,000
	<u>\$ 1,218,422</u>

Serviced by the Water and Sewer Fund:

\$71,300 payable to a bank, secured by the vehicles, payable in annual installments of \$24,902 including interest at 2.37% through November 1, 2020.	<u>\$ 12,405</u>
\$3,000,000 payable to the State of North Carolina Division of Environmental Management, due in annual installments of \$150,000 through May 1, 2035 with no interest, secured by net revenue of the fund and designated non-tax revenues.	<u>\$ 2,250,000</u>
\$3,029,642 payable to the State of North Carolina Division of Environmental Management, due in annual installments of \$151,482 through May 1, 2035 plus interest at 1.92%, secured by net revenue of the fund and designated non-tax revenues.	<u>\$ 2,575,205</u>
\$1,560,000 Water and Sewer Refunding bonds due on December 1 and June 1 in installments of \$85,000 to \$90,000 through June 1, 2023. Interest ranges from 2.5% to 4.2%.	<u>\$ 270,000</u>

TOWN OF STANLEY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

Future annual debt service payments of installment purchases are as follows:

Years Ending June 30,	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2021	\$ 188,635	\$ 15,739	\$ 313,887	\$ 50,009
2022	185,864	12,220	301,482	46,536
2023	177,326	8,903	301,482	42,536
2024	166,624	5,971	301,482	40,718
2025	167,742	11,994	301,482	37,810
2025-2029	332,231	23,935	1,507,410	145,442
2030-2034	-	-	1,507,410	72,712
2035-2039	-	-	302,975	8,724
Total	<u>\$ 1,218,422</u>	<u>\$ 78,762</u>	<u>\$ 4,837,610</u>	<u>\$ 444,487</u>

The bank loan are each secured by the equipment purchased with each financing agreement and contain a provision that in the event of default the outstanding amounts of the bank loans become immediately due and payable.

The notes with the State of North Carolina Division of Environmental Management is note secured by a pledge of the faith and credit of the State of North Carolina or the Town, but is payable solely from the revenues of the Water and Sewer fund. The Town agrees that any other monies due to the Town from the State may be withheld by the State and applied to the payment of this obligation whenever the Town fails to pay any payment of principal or interest on these notes when due.

c. General Obligation Indebtedness

The general obligation bonds, which were originally issued to finance the construction of facilities utilized in the operations of the water and sewer system and are being retired by its resources, are reported as long-term debt in the Water and Sewer Fund. These bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2020 are comprised of the following individual issue:

General Obligation Bond

Serviced by the Water and Sewer Fund:

\$1,560,000 Water and Sewer Refunding bonds due on
December 1 and June 1 in installments of \$85,000 to \$90,000
through June 1, 2023. Interest ranges from 2.5% to 4.2%.

\$ 270,000

TOWN OF STANLEY, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

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

<u>Years Ending June 30,</u>	Business-type Activities	
	Principal	Interest
2021	\$ 90,000	\$ 11,250
2022	90,000	7,245
2023	90,000	4,095
Total	<u>\$ 270,000</u>	<u>\$ 22,590</u>

At June 30, 2020, the Town had no bonds authorized but unissued and had a legal debt margin of \$25,497,594.

d. Advance Refunding

On April 1, 2004, the Town defeased certain Water and Sewer bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Town's financial statements. On June 30, 2020, \$710,000 of bonds outstanding is considered defeased.

e. Changes in Long-Term Liabilities

	Balance			Balance	Current
	June 30, 2019	Increases	Decreases	June 30, 2020	Portion
Governmental activities:					
Direct borrowing - Bank loan	\$ 733,350	\$ 700,000	\$ 214,928	\$ 1,218,422	\$ 188,635
Capitalized leases	59,670	95,014	25,838	128,846	47,719
Compensated absences	97,786	29,565	19,634	107,717	26,009
Total other postemployment liability	134,573	1,281	-	135,854	-
Net pension liability (LGRS)	331,818	65,641	-	397,459	-
Total pension liability (LEOSSA)	474,944	38,173	-	513,117	-
Governmental activity long-term liabilities	<u>\$ 1,832,141</u>	<u>\$ 929,674</u>	<u>\$ 260,400</u>	<u>\$ 2,501,415</u>	<u>\$ 262,363</u>
Business-type activities:					
General obligation bonds	\$ 360,000	\$ -	\$ 90,000	\$ 270,000	\$ 90,000
Direct borrowing - NC Revolving loans	5,126,687	-	301,482	4,825,205	301,482
Direct borrowing - Bank loan	36,380	-	23,975	12,405	12,405
Net pension liability (LGRS)	103,269	23,063	-	126,332	-
Total other postemployment liability	41,551	450	-	42,001	-
Compensated absences	34,022	24,172	8,187	50,007	7,591
Business-type activity long-term liabilities	<u>\$ 5,701,909</u>	<u>\$ 47,685</u>	<u>\$ 423,644</u>	<u>\$ 5,325,950</u>	<u>\$ 411,478</u>

For the governmental funds, the unfunded pension liabilities, unfunded total OPEB liability, and compensated absences are liquidated by the General Fund.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 2—Detail notes on all funds (continued)

C. Interfund Balances and Activity

The composition of inter-fund transfers as of June 30, 2020 is as follows:

Transfer from the Recreation Fund to the General Fund for payment on gymnasium	\$ 20,000
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D. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 4,775,613	\$ 14,438,779
Less long-term debt	1,347,268	5,107,610
Add deferred loss on bond refunding	-	11,054
	<u>\$ 3,428,345</u>	<u>\$ 9,342,223</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	\$ 1,908,585
Less:	
Stabilization by State Statute	362,999
Streets-Powell Bill	<u>400,514</u>
Remaining fund balance	<u>\$ 1,145,072</u>

Note 3—Jointly governed organization

The Town, in conjunction with eight counties and 50 other municipalities, established the Centralina Council of Governments (the "Council"). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of approximately \$3,000 to the Council during the fiscal year ended June 30, 2020.

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2020

Note 4—Summary disclosure of significant contingencies

COVID-19

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

Federal and State Assisted Programs

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

Note 5—Subsequent events

Management has evaluated subsequent events through January 29, 2021, the date on which the financial statements were available to be issued.

Note 6—Restatement

The Town had expenditures related to a CDBG Sewer Rehabilitation Project that was not capitalized in prior years. As a result, capital assets and net position for the governmental activities increased by \$566,503, as of July 1, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

This section contains additional information required by
accounting principles generally accepted in the United States of America.

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

TOWN OF STANLEY, NORTH CAROLINA

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

LAST FOUR YEARS

Schedule of Changes in Total Pension Liability

	2020	2019	2018	2017
Beginning Balance	\$ 474,944	\$ 493,856	\$ 360,491	\$ 342,744
Service Cost	17,811	17,371	16,111	15,192
Interest on total pension liability	17,288	15,606	13,915	12,236
Difference between expected and actual experience	(10,598)	(33,405)	73,947	-
Changes in assumptions or other inputs	13,672	(18,484)	29,392	(9,681)
Net Changes	38,173	(18,912)	133,365	17,747
Ending Balance of the Total Pension Liability	\$ 513,117	\$ 474,944	\$ 493,856	\$ 360,491

Schedule of Total Pension Liability as a Percentage of Covered Payroll

	2020	2019	2018	2017
Total pension liability	\$ 513,117	\$ 474,944	\$ 493,856	\$ 360,491
Covered payroll	697,782	609,957	620,390	508,624
Total pension liability as a percentage of covered payroll	73.54%	77.87%	79.60%	70.88%

Notes to the schedules:

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

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

Measurement	
Date	Rate
2017	3.86%
2018	3.16%
2019	3.64%
2020	3.26%

TOWN OF STANLEY, NORTH CAROLINA

SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS

LAST THREE YEARS

	2020	2019	2018
Beginning balance	\$ 176,124	\$ 157,492	\$ 141,345
Service cost	20,242	20,944	22,663
Interest on the total pension liability	6,851	5,607	4,254
Changes of assumptions or other inputs	1,607	(7,204)	(10,770)
Difference between expected and actual experience	(26,969)	(715)	-
Ending balance of the total pension liability	<u>\$ 177,855</u>	<u>\$ 176,124</u>	<u>\$ 157,492</u>
Covered payroll	\$ 1,241,633	\$ 1,120,797	\$ 1,120,797
Total OPEB liability as a percentage of covered payroll	14.32%	15.71%	14.05%

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

Measurement	
Date	Rate
2017	3.56%
2018	3.89%
2019	3.50%

The Town has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75 to pay related benefits.

TOWN OF STANLEY, NORTH CAROLINA
SCHEDULE OF THE PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
FOR LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

LAST SEVEN YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) (%)	0.01918%	0.01834%	0.01754%	0.01720%	0.01873%	0.01792%	0.01840%
Town's proportion of the net pension liability (asset) (\$)	\$ 523,791	\$ 435,087	\$ 267,962	\$ 365,042	\$ 84,059	\$ (105,682)	\$ 221,791
Town's covered payroll	\$ 1,391,257	\$ 1,129,517	\$ 1,147,354	\$ 952,151	\$ 1,006,999	\$ 1,002,895	\$ 908,418
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	37.65%	38.52%	23.35%	38.34%	8.35%	-10.54%	24.42%
Plan fiduciary net position as a percentage of the total pension liability	90.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

** Information is not required to be presented retroactively. This schedule will not present 10 years of information until 2023.

TOWN OF STANLEY, NORTH CAROLINA
SCHEDULE OF CONTRIBUTIONS
TO LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM

LAST SEVEN YEARS

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 125,641	\$ 111,455	\$ 89,261	\$ 87,057	\$ 66,727	\$ 71,337	\$ 71,879
Contributions in relation to the contractually required contribution	125,641	111,455	89,261	87,057	66,727	71,337	71,879
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 1,350,727	\$ 1,391,257	\$ 1,129,517	\$ 1,147,354	\$ 952,151	\$ 1,006,999	\$ 1,002,895
Contributions as a percentage of covered payroll	9.30%	8.01%	7.90%	7.59%	7.01%	7.08%	7.17%

** Information is not required to be presented retroactively. This schedule will not present 10 years of information until 2023.

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

TOWN OF STANLEY, NORTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
– BUDGET AND ACTUAL- GENERAL FUND

YEAR ENDED JUNE 30, 2020

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:	\$ 1,646,500	\$ 1,847,513	\$ 201,013
Unrestricted intergovernmental:			
Local option sales tax		662,803	
Utilities sales tax		198,370	
Beer and wine tax		16,237	
Gasoline tax refund		9,066	
Total	782,500	886,476	103,976
Restricted intergovernmental:			
Powell Bill allocation		104,566	
Solid waste disposal tax		2,870	
Public safety grant		8,848	
School resource officer grant		41,637	
Total	909,000	157,921	(751,079)
Permits and fees:			
Building permits and zoning fees		25,025	
Total	10,000	25,025	15,025
Sales and services:			
Sanitation fees		284,975	
Recreation department fees		30,451	
Total	303,000	315,426	12,426
Investment earnings	15,000	11,295	(3,705)
Miscellaneous:			
Other income	75,500	51,175	(24,325)
Total Revenues	3,741,500	3,294,831	(446,669)
Expenditures:			
General government:			
Salaries and employee benefits		200,404	
Professional services		201,301	
Other operating expenditures		176,417	
Capital outlay		449,176	
Total general government	1,263,050	1,027,298	235,752
Public safety:			
Police:			
Salaries and employee benefits		997,418	
Vehicle maintenance		21,731	
Other operating expenditures		145,977	
Capital outlay		111,795	
Total police	1,344,500	1,276,921	67,579

TOWN OF STANLEY, NORTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
– BUDGET AND ACTUAL- GENERAL FUND (CONTINUED)

YEAR ENDED JUNE 30, 2020

	Budget	Actual	Variance Positive (Negative)
Fire:			
Salaries and employee benefits		155,653	
Other operating expenditures		68,556	
Contracted services		10,478	
Capital outlay		14,785	
Total fire	870,480	249,472	621,008
Total public safety	2,214,980	1,526,393	688,587
Public works:			
Street repairs and maintenance		51,974	
Other operating expenditures		78,347	
Contracted sanitation services		321,588	
Utilities - street lights		65,891	
Total public works	613,400	517,800	95,600
Parks and recreation:			
Salaries and employee benefits		240,384	
Other operating expenditures		115,621	
Total culture and recreation	411,110	356,005	55,105
Debt service:			
Principal payments	141,400	214,928	
Interest and other fees	20,150	26,219	
Total debt service	161,550	241,147	(79,597)
Total Expenditures	4,664,090	3,668,643	995,447
Revenues over (under) expenditures	(922,590)	(373,812)	548,778
Other financing sources (uses):			
Sale of capital assets	-	194,473	
Loan proceeds	-	795,014	
Transfers from other funds	-	20,000	
Total other financing sources (uses)	-	1,009,487	1,009,487
Fund balance appropriated	922,590	-	(922,590)
Net change in fund balance	\$ -	635,675	\$ 635,675
Fund balance, beginning of year		1,272,910	
Fund balance, end of year		\$ 1,908,585	

TOWN OF STANLEY, NORTH CAROLINA
BALANCE SHEET FOR NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2020

	Recreation Fund
ASSETS	
Cash and cash equivalents	\$ 87,389
Accounts receivable	-
Total Assets	<u>\$ 87,389</u>
 Fund Balance:	
Restricted	<u>87,389</u>
Total Liabilities and Fund Balance	<u>\$ 87,389</u>

TOWN OF STANLEY, NORTH CAROLINA**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
FOR NONMAJOR SPECIAL REVENUE FUNDS***YEAR ENDED JUNE 30, 2020*

	Recreation Fund
Revenues:	
Investment earnings	\$ 119
Miscellaneous	<u>71,523</u>
Total Revenues	<u>71,642</u>
Expenditures:	
Parks and recreation	<u>13,705</u>
Total Expenditures	<u>13,705</u>
Revenues over (under) expenditures	<u>57,937</u>
Other financing sources (uses)	
Transfers out	<u>(20,000)</u>
Net change in fund balance	37,937
Fund balance, beginning of year	<u>49,452</u>
Fund balance, end of year	<u><u>\$ 87,389</u></u>

TOWN OF STANLEY, NORTH CAROLINA**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES –
BUDGET AND ACTUAL – SPECIAL REVENUE FUND – RECREATION***YEAR ENDED JUNE 30, 2020*

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Miscellaneous	\$ 24,900	\$ 71,523	\$ 46,623
Investment earnings	100	119	19
Total Revenues	<u>25,000</u>	<u>71,642</u>	<u>46,642</u>
Expenditures:			
Parks and recreation:			
Miscellaneous	24,000	4,306	19,694
Dixie youth tournament	1,000	9,399	(8,399)
Total Expenditures	<u>25,000</u>	<u>13,705</u>	<u>11,295</u>
Revenues over (under) expenditures	<u>-</u>	<u>57,937</u>	<u>57,937</u>
Other financing sources and (uses):			
Transfers (to)/from other funds:			
General fund	-	(20,000)	(20,000)
Total other financing sources	<u>-</u>	<u>(20,000)</u>	<u>(20,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>37,937</u>	<u>\$ 37,937</u>
Fund balance, beginning of year		<u>49,452</u>	
Fund balance, end of year		<u>\$ 87,389</u>	

TOWN OF STANLEY, NORTH CAROLINA**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES****– BUDGET AND ACTUAL – CAPITAL PROJECT FUND – COMMUNITY DEVELOPMENT
BLOCK GRANT***FROM INCEPTION TO YEAR ENDED JUNE 30, 2020*

	Project Authorization	Prior Year	Current Year	Total to Date	Variance Positive (Negative)
Revenues:					
Grant revenue	\$ 2,089,600	\$ 566,503	\$ 1,414,939	\$ 1,981,442	\$ (674,661)
Total Revenues	<u>2,089,600</u>	<u>566,503</u>	<u>1,414,939</u>	<u>1,981,442</u>	<u>(674,661)</u>
Expenditures:					
Engineering	244,190	46,736	98,040	144,776	146,150
Administrative	196,730	44,456	21,671	66,127	175,059
Construction expense	1,559,080	475,311	1,295,228	1,770,539	263,852
Local funds	<u>89,600</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>89,600</u>
Total Expenditures	<u>2,089,600</u>	<u>566,503</u>	<u>1,414,939</u>	<u>1,981,442</u>	<u>674,661</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning of year			<u>-</u>		
Fund balance, end of year			<u>\$ -</u>		

TOWN OF STANLEY, NORTH CAROLINA**SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL – WATER
AND SEWER FUND***YEAR ENDED JUNE 30, 2020*

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating Revenues:			
Water and sewer charges		\$ 2,442,473	
Reconnection and taps		164,918	
Late penalties		34,690	
Miscellaneous revenue		194,965	
Total Operating Revenues	\$ 2,669,850	2,837,046	\$ 167,196
Nonoperating Revenues:			
Interest earnings		3,538	
Total Nonoperating Revenues	-	3,538	3,538
Total Revenues	2,669,850	2,840,584	170,734
Expenditures:			
Water Department:			
Purchase of water		826,054	
Salaries and employee benefits		306,890	
Maintenance and repairs		29,996	
Insurance and bonds		11,501	
Supplies		11,702	
Other operating expenditures		97,340	
Capital outlay		3,448	
Total Water Department	1,275,530	1,286,931	(11,401)
Sewer Department:			
Salaries and employee benefits		271,470	
Maintenance and repairs		26,878	
Insurance and bonds		10,206	
Supplies		16,730	
Other operating expenditures		854,002	
Capital outlay		4,000	
Total Sewer Department	1,139,150	1,183,286	(44,136)
Debt Service:			
Interest and fees	68,045	67,918	127
Debt principal payments	415,500	415,457	43
Total Debt Service	483,545	483,375	170
Total Expenditures	2,898,225	2,953,592	(55,367)
Other Financing Sources (Uses):			
Transfers Out	-	(600,000)	600,000
Total Other Financing Sources (Uses)	-	(600,000)	600,000

(continued)

TOWN OF STANLEY, NORTH CAROLINA**SCHEDULE OF REVENUES AND EXPENDITURES – BUDGET AND ACTUAL – WATER
AND SEWER FUND (CONTINUED)***YEAR ENDED JUNE 30, 2020*

	Budget	Actual	Variance Positive (Negative)
Revenues over (under) expenditures	(228,375)	(713,008)	(484,633)
Fund balance appropriated	228,375	-	(228,375)
Net change in fund balance	<u>\$ -</u>	<u>(713,008)</u>	<u>\$ (713,008)</u>
Reconciliation from budgetary basis (Non-GAAP) to full accrual basis:			
Net change in fund balance			
Revenues over expenditures and other financing sources:			
Transfer to close out Water and Sewer Capital Project Fund		600,000	
Total		<u>(113,008)</u>	
Reconciling Items:			
Depreciation and amortization		\$ (463,920)	
Increase in accrued vacation pay		(15,985)	
Increase in deferred outflows of resources for pensions		(7,845)	
Increase in pension liability		(450)	
Decrease in deferred inflows of resources for pensions		1,435	
Increase in OPEB liability		(23,063)	
Increase in deferred inflows of resources for OPEB		(5,809)	
Increase in deferred outflows of resources for OPEB		375	
Capital outlay		7,448	
Capital contribution		1,981,442	
Principal retirements		415,457	
Total Reconciling Items		<u>1,889,084</u>	
Change in net position		<u>\$ 1,776,076</u>	

OTHER SCHEDULES

This section contains additional information required on property taxes.

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

TOWN OF STANLEY, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE

YEAR ENDED JUNE 30, 2020

Fiscal Year	Uncollected Balance June 30, 2019	Additions	Collections And Credits	Uncollected Balance June 30, 2020
2019-2020	\$ -	\$ 1,811,342	\$ 1,790,486	\$ 20,856
2018-2019	10,970	-	4,426	6,544
2017-2018	2,652	-	1,267	1,385
2016-2017	2,643	-	1,123	1,520
2015-2016	1,650	-	203	1,447
2014-2015	1,934	-	433	1,501
2013-2014	2,781	-	121	2,660
2012-2013	2,678	-	-	2,678
2011-2012	2,143	-	-	2,143
2010-2011	2,045	-	-	2,045
2009-2010	2,151	-	2,151	-
	<u>\$ 31,647</u>	<u>\$ 1,811,342</u>	<u>\$ 1,800,210</u>	<u>42,779</u>
Less allowance for uncollectible accounts:				
General Fund				<u>(16,474)</u>
Ad valorem taxes receivable, net				<u>\$ 26,305</u>
<u>Reconcilement with revenues:</u>				
Ad valorem taxes - General Fund				\$ 1,847,513
Reconciling items:				
Motor vehicle decals				(45,658)
Interest collected				(5,783)
Taxes written off				2,151
Abatements and adjustments				1,987
Subtotal				<u>(47,303)</u>
Total collections and credits				<u>\$ 1,800,210</u>

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

YEAR ENDED JUNE 30, 2020

	City-Wide		Total Levy	
	Property Valuation	Rate	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:				
Property taxed at current year's rate	\$ 335,715,833	0.540	\$ 1,812,865	\$ 1,647,171
Total	335,715,833		1,812,865	1,647,171
Discoveries:				
Current year taxes	39,444		213	-
Penalties	-		1	-
Total	39,444		214	-
Abatements:				
Current year taxes	315,185		1,702	-
Penalties	-		35	-
Total	315,185		1,737	-
Total property valuation	<u>\$ 335,440,092</u>			
Net levy			1,811,342	1,645,648
Uncollected taxes at June 30, 2020			20,856	-
Current year's taxes collected			<u>\$ 1,790,486</u>	<u>\$ 1,624,792</u>
Current levy collection percentage			<u>98.85%</u>	<u>98.73%</u>

COMPLIANCE SECTION

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the 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 Stanley, North Carolina (the "Town"), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements and have issued our report thereon dated January 29, 2021.

Internal Control over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2020-001 that we consider to be a material weakness.

The Town of Stanley's Response to Finding

The Town of Stanley's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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 financial statements. 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 one instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and responses as finding 2020-002.

The Town of Stanley's Response to Finding

The Town of Stanley's response to the compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. 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 results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Cheryl Behant LLP

Charlotte, North Carolina
January 29, 2021

**Report of Independent Auditor on Compliance with Requirements Applicable to
Each Major Federal Program and Internal Control over Compliance in
Accordance with Uniform Guidance and the
State Single Audit Implementation Act**

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Stanley, North Carolina (the "Town"), compliance with the types of compliance requirements described in the *OMB Compliance Supplement and the Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2020. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administration Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance requires that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of the Town is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Cheryl Behrman LLP

Charlotte, North Carolina
January 29, 2021

TOWN OF STANLEY, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2020

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Federal Expenditures</u>	<u>Passed through to Subrecipients</u>
FEDERAL AWARDS				
<u>U.S. Department of Housing and Urban Development</u>				
<i>Passed through the NC Department of Environmental Quality Division of Water Infrastructure</i>				
Community Development Block Grant - Infrastructure Fund	14.228	E-CDBG-I-2016-00002928-1	<u>\$ 1,414,939</u>	<u>\$ -</u>
Total Federal Awards Expended			<u><u>\$ 1,414,939</u></u>	<u><u>\$ -</u></u>

TOWN OF STANLEY, NORTH CAROLINA

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

YEAR ENDED JUNE 30, 2020

Note 1—Basis of presentation

The accompanying schedule of expenditures of federal awards ("SEFA") includes the federal grant activity of the Town of Stanley, North Carolina (the "Town") under the programs of the federal government for the year ended June 30, 2020. The information in this SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the schedule presents only a selected portion of the operations of the Town, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town.

Note 2—Summary of significant accounting policies

Expenditures reported in the SEFA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance wherein certain types of expenditures are not allowable or are limited as to reimbursement.

The Town has elected not to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

TOWN OF STANLEY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2020

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's opinion issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant Deficiency(ies) identified that are not considered to be material weaknesses? yes X no

Noncompliance material to financial statements noted? yes X no

Federal Awards

Internal control over major federal programs:

Internal control over financial reporting:

- Material weakness(es) identified? yes X no
- Significant Deficiency(ies) identified that are not considered to be material weaknesses? yes X none reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major federal programs:

CFDA Numbers

Names of Federal Program or Cluster

14.228

Community Development Block Grant – Infrastructure Fund

Dollar threshold used to distinguish between Type A and Type B Programs \$750,000

Auditee qualified as low-risk auditee? yes X no

TOWN OF STANLEY, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2020

Section II. Financial Statement Findings

Material Weakness **Finding 2020-001**

Criteria: The Town is responsible for proper reconciliation and reporting of balance sheet accounts under the modified and full accrual basis of accounting at the fund and government wide levels, respectively, in accordance with accounting principles generally accepted in the United States of America.

Condition: The Town had not properly identified capital asset additions in the prior year that should have been presented as construction in progress. The Town further had not reconciled all year-end receivable and payable accounts.

Effect: The Town recorded a prior period adjustment in the current year to increase beginning net position and capital assets of the governmental activities by approximately \$566,000 related to a capital project that should have been capitalized as construction in progress on the government wide statement of net position. There was also an instance in which a receivable and payable of approximately \$323,000 was accrued as of year-end that should have not been reported in the Community Development Block Grant Fund. Other adjustments were required for property and sales tax receivable accounts that were not reconciled and adjusted to reflect the actual amounts receivable and payable as of June 30, 2020.

Cause: The Town does not have formal financial reporting and close policies and procedures to ensure all accounts are properly reconciled at year-end.

Recommendation: We recommend the Town establish more effective internal controls over identifying capital assets and reconciling all receivables and payables at year-end.

Views of responsible officials: See Corrective Action Plan.

Non-material Noncompliance **Finding 2020-002: Budgetary Violation**

Criteria: Notwithstanding any other provision of law, no local government or public authority may expend any moneys, regardless of their source (including moneys derived from bond proceeds, federal state, or private grants or loans, special assessments), except in accordance with a budget ordinance or project ordinance adopted (North Carolina General Statute 159-8).

Condition: The Town's expenditures exceeded authorized amounts for the Water Department by \$11,401, the Sewer Department by \$44,136 and the General fund principal and interest payments by \$79,257.

Effect: Budgeted expenditure amounts for three departments violated North Carolina General Statute 159-8.

Cause: The Town had not budgeted for additional invoices received after year-end that were required to be accrued. For the General Fund, the Town inadvertently omitted a debt principal and interest payment from its budget.

Recommendation: The Town should monitor expenditures by department to ensure that they do not exceed budgeted amounts and obtain budget amendments approved by Town Council prior to incurring any expenditures that would be in excess of the approved budget.

Views of responsible officials: See Corrective Action Plan.

TOWN OF STANLEY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)

YEAR ENDED JUNE 30, 2020

Section III. Federal Award Findings and Questions Costs

None reported.

MAYOR
Steven Denton
COUNCIL
Cathy Kirkland
Mayor Pro-Tem
Bud Pate
Kerry Hart
Jimmy Ingold
Victoria Kiser



TOWN MANAGER
Heath Jenkins
POLICE CHIEF
Derek Summey
FIRE CHIEF
Eric Withers
CLERK
Olga Grishin
PUBLIC WORKS
Craig Roseberry
PARKS AND RECREATION
Tug Deason

Corrective Action Plan

During the year ending June 30, 2020, the Town of Stanley was in the process of constructing a new Town Hall addition. As with any capital project that is financed the Town finance director includes principal and interest payments which are provided by the financing agency in the annual budget. These payments are normally tracked on a debt-service chart that includes all outstanding debt in the general government and utility account. Due to the timing of the loan repayment, the former finance director failed to include the payments and interest that should have been included in the annual budget. The new finance director is familiar with the requirements of North Carolina General Statute 159-8, as is the Town Manager. To correct this violation the finance director, department heads in the respective departments, and the Town Manager will review the proposed budget to ensure all principal and interest payments that are due at any time during that budget year are appropriately budgeted.

The water and sewer funds that were inadvertently omitted, the Town of Stanley experienced some additional charges in both the water and sewer fund that were not expected. To ensure this does not reoccur in the future, the finance director and town manager will work with the head of that department to ensure enough funds are allocated to cover any unexpected expenses in this department. The Town has adequate funds in the fund balance to set aside additional funds to cover unexpected expenses to prevent exceeding the budget.

The failure to capitalize the \$566,000 was omitted by the former finance director. In order to ensure future compliance, the Town Manager will work with the new finance director to develop policies and procedures to ensure all accounts are reconciled at the year-end. The Town Manager will also seek guidance and training from auditing firm on how to ensure these policies are developed properly.

The Town of Stanley has experienced turn over in the finance department. With the hiring of a new, more experienced director the Town Manager will work together with the finance director, gaining guidance from the auditor on potential pitfalls, and the Town department heads to ensure compliance with all North Carolina General Statutes and accounting requirements.

Respectfully Submitted,

Heath R. Jenkins, Town Manager
MBA -ICMA – Credentialed Manager
Town of Stanley

TOWN OF STANLEY, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2020

Finding 2019-001:

Status: Repeated as Finding 2020-002