

Town of Kenly, North Carolina

Audited Financial Statements

**For the Year Ended
June 30, 2021**

Town of Kenly, North Carolina
Audited Financial Statements
For the Year Ended June 30, 2021

Herbert Louis Hales II, Mayor

Mark Smith, Mayor Pro-Temp

Board of Town Council

LaWanda Neal

Trinity Henderson

Keith Davis

Bobby Peele

Tony Sears, Interim Town Manager
Tymeeka Williams, Interim Town Clerk

Town of Kenly, North Carolina
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June 30, 2021

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Financial Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS
American Institute of CPAs
N. C. Association of CPAs

Independent Auditor's Report

To the Honorable Mayor and
Board of Town Council
Town of Kenly, 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 Kenly, North Carolina, as of and for the year ended June 30, 2021, 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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 the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kenly, North Carolina as of June 30, 2021, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis on pages 3 through 11, the Local Government Employee's Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on pages 45 and 46 respectively, the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 47 and 48 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

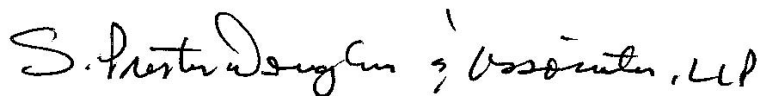
Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Kenly, North Carolina. The individual fund statements, budgetary schedules, and other schedules as well as the accompanying Schedule of Expenditures of Federal and State 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 financial statements, budgetary schedules, and other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards, are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 27, 2023 on our consideration of the Town of Kenly's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Kenly's internal control over financial reporting and compliance.



Lumberton, North Carolina
January 27, 2023

Management's Discussion and Analysis

Management's Discussion and Analysis

As management of the Town of Kenly, we offer readers of the Town of Kenly's financial statements this narrative overview and analysis of the financial activities of the Town of Kenly for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

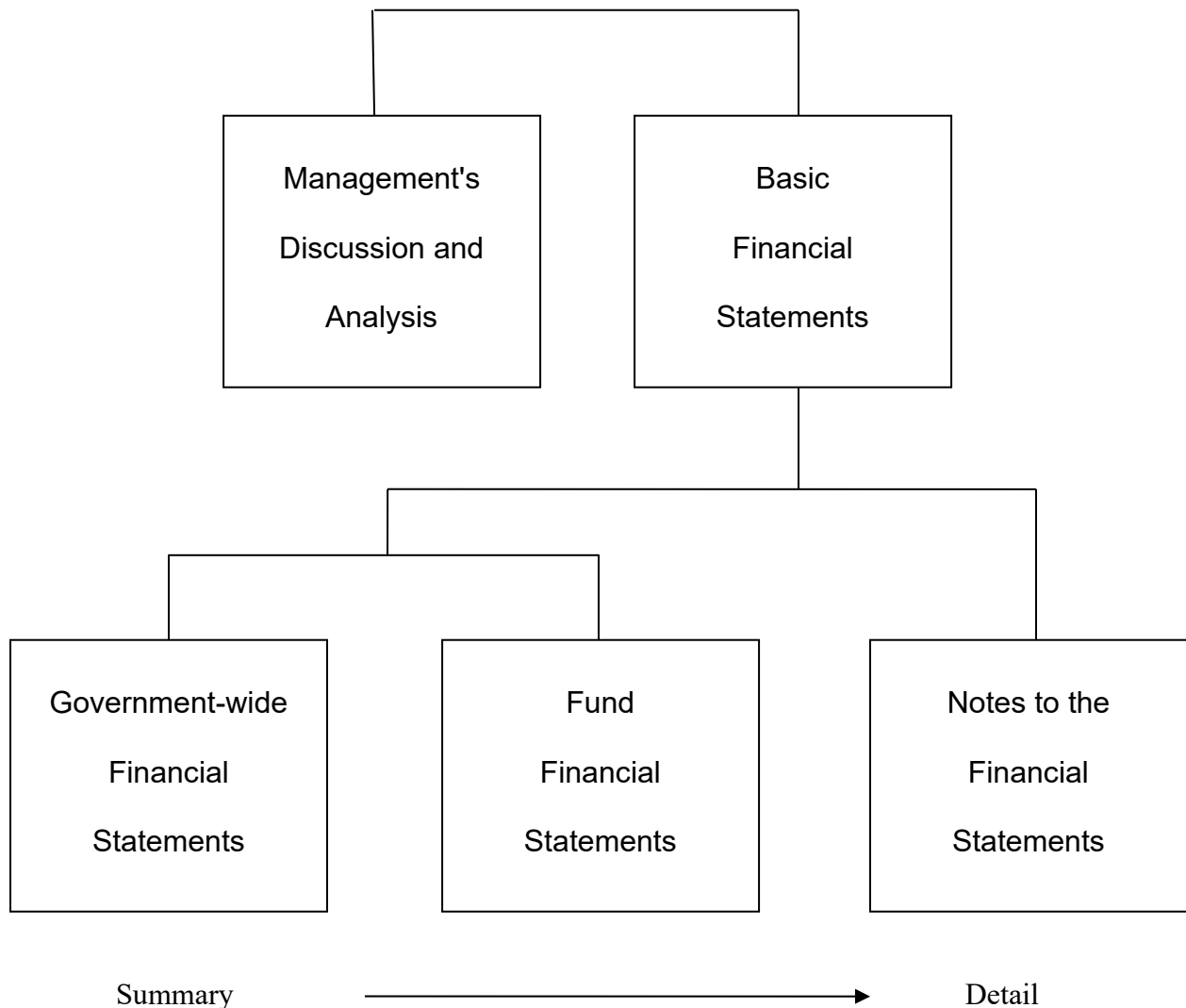
- The assets and deferred outflows of resources of the Town of Kenly exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$7,397,375 (*net position*).
- The government's total net position increased by \$367,268, primarily due to a federal grant of \$315,300.
- As of the close of the current fiscal year, the Town of Kenly's governmental funds reported combined ending fund balances of \$1,024,947 with a net change of \$335,807 in fund balance. Approximately 25.08% of this total amount, or \$257,093 is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$765,124 or 51.69 % of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town 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.

Management Discussion and Analysis

Town of Kenly

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 General Statutes also can be found in this part of the statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town 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 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 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. This includes the water and sewer services offered by the Town of Kenly.

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

Fund Financial Statements

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

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

Management Discussion and Analysis

Town of Kenly

Statement of Net Position and the Statement of Activities and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 23 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain supplementary information concerning the Town of Kenly's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 45 of this report.

Interdependence with Other Entities – The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations.

Management Discussion and Analysis
Town of Kenly

Government-Wide Financial Analysis

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 1,062,271	\$ 735,899	\$ 1,224,893	\$ 1,105,971	\$ 2,287,164	\$ 1,841,870
Capital assets	1,742,132	1,880,557	5,396,212	4,218,508	7,138,344	6,099,065
Deferred outflows of resources	240,048	143,093	81,305	72,376	321,353	215,469
Total assets and deferred outflows of resources	3,044,451	2,759,549	6,702,410	5,396,855	9,746,861	8,156,404
Long-term liabilities outstanding	923,848	832,183	1,160,665	146,373	2,084,513	978,556
Other liabilities	26,850	28,496	223,737	97,388	250,587	125,884
Deferred inflows of resources	12,494	14,515	1,892	7,342	14,386	21,857
Total liabilities and deferred inflows of resources	963,192	875,194	1,386,294	251,103	2,349,486	1,126,297
Net position:						
Net investment in capital assets	1,332,103	1,423,104	4,396,634	4,196,794	5,728,737	5,581,364
Restricted	257,093	202,991	-	-	257,093	202,991
Unrestricted	492,063	296,794	919,482	948,958	1,411,545	1,245,752
Total net position	\$ 2,081,259	\$ 1,922,889	\$ 5,316,116	\$ 5,145,752	\$ 7,397,375	\$ 7,030,107

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Kenly exceeded liabilities and deferred inflows by \$7,397,375 as of June 30, 2021. The Town's net position increased by \$367,268 for the fiscal year ended June 30, 2021. However, the largest portion (77.44%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment); less any related debt still outstanding that was issued to acquire those items. The Town of Kenly uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Kenly's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Kenly's net position (\$257,093) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,411,545 is unrestricted.

Management Discussion and Analysis

Town of Kenly

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.47%, which approximates the 2021 statewide average of 98.96%.

Town of Kenly's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenue:						
Program revenues:						
Charges for services	\$ 184,030	\$ 174,137	\$ 1,374,125	\$ 1,302,768	\$ 1,558,155	\$ 1,476,905
Operating grants and contributions	42,272	179,383	-	-	42,272	179,383
Capital grants and contributions	-	-	315,300	-	315,300	-
General revenues:						
Property taxes	1,013,491	960,183	-	-	1,013,491	960,183
Other taxes	-	-	-	-	-	-
Grants and contributions not restricted to specific programs	565,499	462,468	-	-	565,499	462,468
Other	2,819	2,947	116	251	2,935	3,198
Total revenue	<u>1,808,111</u>	<u>1,779,118</u>	<u>1,689,541</u>	<u>1,303,019</u>	<u>3,497,652</u>	<u>3,082,137</u>
Expenses:						
General government	223,366	362,402	-	-	223,366	362,402
Public safety	793,802	754,487	-	-	793,802	754,487
Transportation	169,184	315,280	-	-	169,184	315,280
Economic and physical development	(2,335)	27,386	-	-	(2,335)	27,386
Environmental protection	120,476	118,612	-	-	120,476	118,612
Planning board	1,574	1,491	-	-	1,574	1,491
Cultural and recreational	286,653	272,990	-	-	286,653	272,990
Interest on long-term debt	18,487	17,300	-	-	18,487	17,300
Water and sewer	-	-	1,519,177	1,451,809	1,519,177	1,451,809
Total expenses	<u>1,611,207</u>	<u>1,869,948</u>	<u>1,519,177</u>	<u>1,451,809</u>	<u>3,130,384</u>	<u>3,321,757</u>
Increase (decrease) in net position before transfers	196,904	(90,830)	170,364	(148,790)	367,268	(239,620)
Transfers	-	-	-	-	-	-
Net increase (decrease) in net position	196,904	(90,830)	170,364	(148,790)	367,268	(239,620)
Net position, July 1	1,922,889	2,013,719	5,145,752	5,294,542	7,068,641	7,308,261
Prior period adjustment	(38,534)	-	-	-	(38,534)	-
Net position, June 30	<u>\$ 2,081,259</u>	<u>\$ 1,922,889</u>	<u>\$ 5,316,116</u>	<u>\$ 5,145,752</u>	<u>\$ 7,397,375</u>	<u>\$ 7,068,641</u>

Management Discussion and Analysis
Town of Kenly

Governmental activities. Governmental activities increased the Town net position by \$196,904, thereby accounting for 53.61% of the total increase in the net position of the Town of Kenly. The increase in net position was the result of depreciation expense of \$152,761 and reducing other expenses by \$261,875. Town management reduced non-essential programs to a minimum and implemented cost saving strategies across Town departments. Certain non-recurring expenses were either postponed or renegotiated in an attempt to maintain a healthy net position. Management believes healthy investment in the Town will result in additional revenues, and in that vein added to the Town's net position by investing in capital assets which were largely funded by economic development grant revenues. Increased efforts to maximize tax collections also contributed to the favorable net position. Though many of the Town's residents were hit hard by the recession, tax revenue did not appreciably decline in the current year. Town management acknowledges that 2021 was less than a successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health. Key elements of this decrease are as follows:

- Tax revenues remained steady.

Business-type activities. Business-type activities increased the Town of Kenly's net position by \$170,364, accounting for 46.39% of the total increase in the government's net position. Key elements of this increase are as follows:

- The Town recognized depreciation expense of \$231,885 in the Proprietary Fund and decreased its net position.
- The Town received a federal grant of \$315,300 in the Water and Sewer Capital Projects Fund, which increased its net position.

FINANCIAL ANALYSIS OF THE TOWN'S FUNDS

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

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

The General Fund is the chief operating fund of the Town of Kenly. At the end of the current fiscal year, Town of Kenly's fund balance available in the General Fund was \$767,854, while total fund balance reached \$1,024,947. The Governing Body of the Town of Kenly has determined that the Town should maintain an available fund balance of 10.00% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of 51.88% of general fund expenditures, while the total fund balance represents 69.25% of the same amount.

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

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$919,482. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Kenly's investment in capital assets for its governmental and business-type activities as of June 30, 2021, totals \$7,138,344 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles. Major capital asset transactions during the year included the following:

- Other fixed asset purchases of \$14,336.
- Construction projects of \$1,409,589.

Management Discussion and Analysis
Town of Kenly

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 184,248	\$ 184,248	\$ 28,000	\$ 28,000	\$ 212,248	\$ 212,248
Buildings and system	1,350,366	1,432,035	3,481,850	3,653,294	4,832,216	5,085,329
Machine and equipment	117,209	126,623	476,773	537,214	593,982	663,837
Vehicles and motorized equipment	90,309	137,651	-	-	90,309	137,651
Construction in progress	-	-	1,409,589	-	1,409,589	-
Total	<u>\$ 1,742,132</u>	<u>\$ 1,880,557</u>	<u>\$ 5,396,212</u>	<u>\$ 4,218,508</u>	<u>\$ 7,138,344</u>	<u>\$ 6,099,065</u>

Additional information on the Town's capital assets can be found on page 31 of the basic financial statements.

Long-term Debt. As of June 30, 2021, the Town of Kenly had total debt outstanding of \$1,409,607. Of this, \$1,409,607 is debt backed by the full faith and credit of the Town of Kenly.

Additional information regarding the Town of Kenly's long-term debt can be found on page 42.

Budget Highlights for the Fiscal Year Ending June 30, 2022

Property taxes will remain the same at \$.61 per one hundred dollars (\$100) valuation of taxable property. Budgeted expenditures in the General Fund are expected to remain steady, with no fund balance appropriated.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager, Town of Kenly, PO Box 519, Kenly, NC 27542.

Basic Financial Statements

Exhibit 1

**Town of Kenly, North Carolina
Statement of Net Position
June 30, 2021**

	Primary Government		
	Governmental Activities	Business- type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 794,704	\$ 1,058,069	\$ 1,852,773
Taxes receivables (net)	10,474	-	10,474
Accounts receivable (net)	16,946	95,929	112,875
Due from other governments	124,076	2,204	126,280
Prepaid insurance	7,356	5,216	12,572
Restricted cash and cash equivalents	108,715	63,475	172,190
Total current assets	1,062,271	1,224,893	2,287,164
Non-current assets:			
Capital assets (Note 1):			
Land, non-depreciable improvements, and construction in progress	184,248	1,437,589	1,621,837
Other capital assets, net of depreciation	1,557,884	3,958,623	5,516,507
Total capital assets	1,742,132	5,396,212	7,138,344
Total assets	2,804,403	6,621,105	9,425,508
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	240,048	81,305	321,353
LIABILITIES			
Current liabilities:			
Accounts payable	26,850	149,705	176,555
Accrued interest payable	-	10,557	10,557
Current portion of long-term liabilities	73,224	29,231	102,455
Payable from restricted assets	-	63,475	63,475
Total current liabilities	100,074	252,968	353,042
Long-term liabilities:			
Due in more than one year	850,624	1,131,434	1,982,058
Total liabilities	950,698	1,384,402	2,335,100
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	12,494	1,892	14,386
Total deferred inflows of resources	12,494	1,892	14,386
NET POSITION			
Net investment in capital assets	1,332,103	4,396,634	5,728,737
Restricted for:			
Stabilization by State Statute	148,378	-	148,378
Pursuant to loan requirements	18,722	-	18,722
Other functions	89,993	-	89,993
Unrestricted	492,063	919,482	1,411,545
Total net position	\$ 2,081,259	\$ 5,316,116	\$ 7,397,375

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

Town of Kenly, North Carolina
Statement of Activities
For the Year Ended June 30, 2021

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
Primary government:							
Governmental Activities:							
General government	\$ 223,366	\$ 10,660	\$ -	\$ -	\$ (212,706)	\$ -	\$ (212,706)
Public safety	793,802	455	-	-	(793,347)	-	(793,347)
Transportation	169,184	-	41,199	-	(127,985)	-	(127,985)
Economic and physical development	(2,335)	-	-	-	2,335	-	2,335
Environmental protection	120,476	157,888	1,073	-	38,485	-	38,485
Planning board	1,574	-	-	-	(1,574)	-	(1,574)
Cultural and recreation	286,653	15,027	-	-	(271,626)	-	(271,626)
Interest on long-term debt	18,487	-	-	-	(18,487)	-	(18,487)
Total governmental activities (See Note 1)	1,611,207	184,030	42,272	-	(1,384,905)	-	(1,384,905)
Business-type activities:							
Water and Sewer	1,519,177	1,374,125	-	315,300	-	170,248	170,248
Total business-type activities	1,519,177	1,374,125	-	315,300	-	170,248	170,248
Total primary government	\$ 3,130,384	\$ 1,558,155	\$ 42,272	\$ 315,300	\$ (1,384,905)	\$ 170,248	\$ (1,214,657)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					1,013,491	-	1,013,491
Grants and contributions not restricted to specific programs					565,499	-	565,499
Unrestricted investment earnings					40	116	156
Miscellaneous					2,779	-	2,779
Total general revenues, not including transfers					1,581,809	116	1,581,925
Transfers					-	-	-
Total general revenues and transfers					1,581,809	116	1,581,925
Change in net position					196,904	170,364	367,268
Net postion - beginning, previously reported					1,922,889	5,145,752	7,068,641
Prior period restatement - correction of an error					(38,534)	-	(38,354)
Net position, beginning, as restated					1,884,355	5,145,752	7,030,107
Net position, ending					\$ 2,081,259	\$ 5,316,116	\$ 7,397,375

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

Exhibit 3

Town of Kenly
Balance Sheet
Governmental Funds
June 30, 2021

	Major Funds General Fund	Total Non- Major Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 794,704	\$ -	\$ 794,704
Restricted cash	108,715	-	108,715
Receivables, net:			
Taxes	10,474	-	10,474
Accounts	16,946	-	16,946
Due from other governments	124,076	-	124,076
Prepaid insurance	7,356	-	7,356
Total assets	<u>\$ 1,062,271</u>	<u>\$ -</u>	<u>\$ 1,062,271</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 26,850	\$ -	\$ 26,850
Total liabilities	<u>26,850</u>	<u>-</u>	<u>26,850</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	10,474	-	10,474
Total deferred inflows of resources	<u>10,474</u>	<u>-</u>	<u>10,474</u>
FUND BALANCES			
Restricted			
Stabilization by State Statute	148,378	-	148,378
Streets	82,315	-	82,315
Public Safety	7,678	-	7,678
Debt service	18,722	-	18,722
Committed			
Culture and recreation	2,730	-	2,730
Unassigned	765,124	-	765,124
Total fund balances	<u>1,024,947</u>	<u>-</u>	<u>1,024,947</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,062,271</u>	<u>\$ -</u>	

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

**Exhibit 3
(continued)**

**Town of Kenly
Balance Sheet
Governmental Funds
June 30, 2021**

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

Total Fund Balance, Governmental Funds		\$ 1,024,947
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	\$ 4,620,813	
Accumulated depreciation	<u>(2,878,681)</u>	1,742,132
Deferred outflows of resources related to pensions are not reported in the funds		240,048
Earned revenues considered deferred inflows of resources in fund statements		10,474
Long-term liabilities used in governmental activities are not financial uses and therefore not reported in the funds		
Gross long-term debt	452,666	
Net pension liability (LGERS)	299,846	
Total pension liability (LEO)	<u>171,336</u>	(923,848)
Deferred inflows of resources related to pensions are not reported in the funds		<u>(12,494)</u>
Net position of governmental activities		<u><u>\$ 2,081,259</u></u>

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

Town of Kenly
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2021

	Major Funds	Total Non-	Total
	General Fund	Major Funds	Governmental
			Funds
REVENUES			
Ad valorem taxes	\$ 1,021,279	\$ -	\$ 1,021,279
Other taxes and licenses	4,710	-	4,710
Unrestricted intergovernmental	565,499	-	565,499
Restricted intergovernmental	42,277	-	42,277
Permits and fees	6,000	-	6,000
Sales and services	173,315	-	173,315
Investment earnings	40	-	40
Miscellaneous	2,779	-	2,779
Total revenues	<u>1,815,899</u>	<u>-</u>	<u>1,815,899</u>
EXPENDITURES			
Current:			
General government	203,047	-	203,047
Public safety	676,449	-	676,449
Transportation	156,397	-	156,397
Economic and physical development	(2,335)	-	(2,335)
Environmental protection	85,017	-	85,017
Planning board	1,574	-	1,574
Culture and recreation	255,498	-	255,498
Debt service:			
Principal	85,958	-	85,958
Interest and other charges	18,487	-	18,487
Total expenditures	<u>1,480,092</u>	<u>-</u>	<u>1,480,092</u>
Excess (deficiency) of revenues over expenditures	<u>335,807</u>	<u>-</u>	<u>335,807</u>
OTHER FINANCING SOURCES (USES)			
Installment purchase proceeds	-	-	-
Sales of capital assets	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	335,807	-	335,807
Fund balances-beginning	689,141	-	689,141
Fund balances-ending	<u>\$ 1,024,947</u>	<u>\$ -</u>	<u>\$ 1,024,947</u>

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

Town of Kenly
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2021

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

Net changes in fund balances - total governmental funds	\$	335,807
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized	\$ 14,336	
Depreciation expense for governmental assets	(152,761)	(138,425)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Net Position

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

Change in deferred revenue for tax revenues	(7,788)	(7,788)
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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 assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

New long-term debt issued	\$ -	
Principal payments on long-term debt	85,958	85,958

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(2,964)	
Pension expenses	(75,684)	(78,648)

Total changes in net assets of governmental activities	\$	196,904
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The notes to the financial statements are an integral part of this statement.

**Town of Kenly
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2021**

General Fund				
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 942,266	\$ 928,266	\$ 1,021,279	\$ 93,013
Other taxes and licenses	-	-	4,710	4,710
Unrestricted intergovernmental	417,427	450,304	565,499	115,195
Restricted intergovernmental	42,900	42,900	42,277	(623)
Permits and fees	2,600	2,600	6,000	3,400
Sales and services	170,000	171,510	173,315	1,805
Investment earnings	100	100	40	(60)
Miscellaneous	7,000	7,000	2,779	(4,221)
Total revenues	1,582,293	1,602,680	1,815,899	213,219
Expenditures:				
Current:				
General government	299,063	279,053	203,047	76,006
Public safety	751,178	761,955	676,449	85,506
Transportation	196,048	191,044	156,397	34,647
Economic and physical development	35,000	35,000	(2,335)	37,335
Environmental protection	88,844	88,844	85,017	3,827
Planning board	2,998	2,998	1,574	1,424
Culture and recreation	271,829	281,439	255,498	25,941
Debt service:				
Principal retirement	2,592	27,606	85,958	(58,352)
Interest and other charges	18,500	18,500	18,487	13
Total expenditures	1,666,052	1,686,439	1,480,092	206,347
Revenues over (under) expenditures	(83,759)	(83,759)	355,807	419,566
Other financing sources (uses):				
Fund balance appropriated	83,759	83,759	-	(83,759)
Sales of capital assets	-	-	-	-
Total other financing sources (uses)	83,759	83,759	-	(83,759)
Net change in fund balance	\$ -	\$ -	335,806	\$ 335,806
Fund balances, beginning of year			689,141	
Fund balances, end of year			\$ 1,024,947	

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

Town of Kenly
Statement of Fund Net Position
Proprietary Funds
June 30, 2021

	Enterprise Funds	
	Water and Sewer Fund	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,058,069	\$ 1,058,069
Accounts receivable (net) - billed	95,929	95,929
Due from other governments	2,204	2,204
Prepaid insurance	5,216	5,216
Restricted cash and cash equivalents	63,475	63,475
Total current assets	1,224,893	1,224,893
Noncurrent assets:		
Capital assets:		
Land and other non-depreciable assets	1,437,589	1,437,589
Other capital assets, net of depreciation	3,958,623	3,958,623
Capital assets (net)	5,396,212	5,396,212
Total noncurrent assets	5,396,212	5,396,212
Total assets	6,621,105	6,621,105
DEFERRED OUTFLOWS OF RESOURCES		
Pension deferrals	81,305	81,305
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	160,262	160,262
Compensated absences - current	23,903	23,903
Installment purchase payable - current	5,328	5,328
Liabilities payable from restricted assets:		
Customer deposits	63,475	63,475
Total current liabilities	252,968	252,968
Noncurrent liabilities:		
Installment purchase payable - noncurrent	11,250	11,250
Bond anticipation note-noncurrent	983,000	983,000
Net pension liability	137,184	137,184
Total noncurrent liabilities	1,131,434	1,131,434
Total liabilities	1,384,402	1,384,402
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals	1,892	1,892
NET POSITION		
Net investment in capital assets	4,396,634	4,396,634
Unrestricted	919,482	919,482
Total net position	\$ 5,316,116	\$ 5,316,116

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

Town of Kenly
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2021

	Enterprise Funds	
	Water and Sewer Fund	Total
OPERATING REVENUES		
Charges for services	\$ 1,292,201	\$ 1,292,201
Water and sewer taps	12,650	12,650
Other operating revenues	69,274	69,274
Total operating revenues	1,374,125	1,374,125
OPERATING EXPENSES		
Administration	203,819	203,819
Water treatment and distribution	378,902	378,902
Waste collection and treatment	693,634	693,634
Depreciation	231,885	231,885
Total operating expenses	1,508,240	1,508,240
Operating income (loss)	(134,115)	(134,115)
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	116	116
Interest and other charges	(10,937)	(10,937)
Total nonoperating revenue (expenses)	(10,821)	(10,821)
Income (loss) before contributions and transfers	(144,936)	(144,936)
Federal grants	315,300	315,300
Change in net position	170,364	170,364
Total net position - previously reported	5,145,752	5,145,752
Total net position - ending	\$ 5,316,116	\$ 5,316,116

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

Town of Kenly
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2021

	Business-Type Activities Enterprise Funds	
	Water and Sewer Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,289,239	\$ 1,289,239
Cash paid for goods and services	743,638	943,638
Cash paid to or on behalf of employees for services	(359,365)	(359,365)
Customer deposits received	12,500	12,500
Customer deposits returned	(14,675)	(14,675)
Other operating revenues	69,274	69,274
Net cash provided by operating activities	253,335	253,335
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(1,409,589)	(1,409,589)
Principal paid on debt bond maturities	(5,136)	(5,136)
Bond anticipation note issued	983,000	983,000
Interest paid on debt maturities	(1,136)	(1,136)
Capital contributions-federal grant	315,300	315,300
Net cash provided (used) by capital and related financing activities	(117,561)	(117,561)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	116	116
Net increase (decrease) in cash and cash equivalents	135,890	135,890
Balances-beginning of the year	985,654	985,654
Balances-end of the year	\$ 1,121,544	\$ 1,121,544

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

Town of Kenly
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2021

	Business-Type Activities	
	Enterprise Funds	
	Water and Sewer Fund	Totals
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ (134,115)	\$ (134,115)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	231,885	231,885
(Gain) loss on sale of capital assets	-	-
Changes in assets and liabilities:		
Decrease in accounts receivable	24,388	24,388
(Increase) in due from other governments	(2,204)	(2,204)
(Increase) in prepaid insurance	(5,216)	(5,216)
Increase in accounts payable and accrued liabilities	118,723	118,723
(Decrease) in customer deposits	(2,175)	(2,175)
(Decrease) in accrued vacation pay	(860)	(860)
Increase (decrease) in net pension liability	37,288	37,288
Increase (decrease) in deferred inflows of resources for pensions	(5,450)	(5,450)
(Increase) decrease in deferred outflows of resources for pensions	(8,929)	(8,929)
Total adjustments	387,450	387,450
Net cash provided by operating activities	<u>\$ 253,335</u>	<u>\$ 253,335</u>

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

Notes to the Financial Statements

Town of Kenly, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2021

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

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

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

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

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

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, and sanitation services.

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. Two Water and Sewer Capital Projects Funds (in progress) have been consolidated into the Water and Sewer Fund for financial reporting purposes. The budgetary comparisons for the two Water and Sewer Capital Projects Funds have been included in the supplemental information.

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to cover 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 non-operating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina.

Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when the 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 beer and wine tax collected and held by the State at year-end on behalf of the Town are recognized as revenue. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Sales taxes are considered a shared revenue for the Town of Kenly because the tax is levied by Johnston County and then remitted to and distributed by the State. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances (when they exist) are adopted for the Enterprise Capital Projects Fund, which is consolidated with the operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high-quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

Money market investments that have a remaining maturity at the time of purchase of one year or less are reported at amortized cost. Non-participating interest earning investment contracts are reported at cost. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

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

The unexpended bond proceeds of Water and Sewer Fund serial bonds issued by the Town are classified as restricted assets for the enterprise fund because their use is completely restricted to the purpose for which the bonds were originally issued. 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 it can be expended only for the purpose of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S.136-41.1 through 136-41.4.

Town of Kenly Restricted Cash

Governmental activities

General fund

Streets	\$ 82,315
Public safety	7,678
USDA debt service	18,722

Total Governmental activities	<u>108,715</u>
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Business-type activities

Water and Sewer Fund

Customer deposits	63,475
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Total Business-type activities	<u>63,475</u>
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Total Restricted Cash	<u>\$ 172,190</u>
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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, 2020.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

The Town does not maintain any inventories.

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; Buildings, improvements, substations, lines, and other plant and distribution systems, \$10,000; infrastructure, \$50,000; furniture and equipment, \$2,500; and vehicles, \$2,500. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. 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:

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	50
Improvements	10-25
Vehicles	6
Furniture and equipment	10
Computer equipment	3

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 assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are expensed in the reporting period in which they are incurred.

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 an unlimited number of days of vacation leave for employees with such leave being fully vested when earned. The Town considers all accrued leave as being a current liability.

The Town's sick leave policies provide 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 has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Position/Fund Balances

Net position in government-wide and proprietary fund financial statements are 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.

11. 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:

Non-spendable Fund Balance – This classification included amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

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

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

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

Restricted for debt service – the USDA requires that funds be set aside to ensure that the Town has the resources to make the annual payment on installment purchase agreement.

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

Committed for culture and recreation – portion of fund balance assigned by the Board for library operations.

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

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

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

The Town of Kenly 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, 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.

12. Pensions

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

II. Stewardship, Compliance, and Accountability

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

1. Noncompliance with North Carolina General Statutes

N.C. General Statute 159-34(a) states the Board should have its accounts audited as soon as possible after the close of each fiscal year by a certified public accountant. The deadline to submit June 30 year end audits to the Local Government Commission is October 31. The October 31 deadline includes a grace period from November 1 to December 1, in which there are no additional documents or notifications needed. The June 30, 2021 audit was issued on January 27, 2023.

2. Contractual Violations

None.

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

None during the year ended June 30, 2021.

C. Excess of Expenditures over Appropriations

The Town expended more than appropriated in the annual budget ordinance in the debt service line item. The total expenditures that exceeded appropriations for this line item totaled \$58,339 for the year ended June 30, 2021.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits.

The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits.

At June 30, 2021 the Town's deposits had a carrying amount of \$1,984,625 and a bank balance of \$2,032,321. Of the bank balance, \$359,033 was covered by federal depository insurance. At June 30, 2021 the Town's petty cash fund totaled \$75.

2. Investments

At June 30, 2021, the Town of Kenly had \$40,263 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAm by Standard and Poor's. The Town has no policy regarding credit risk.

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position are net of no allowances for doubtful accounts.

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2021, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 184,248	\$ -	\$ -	\$ 184,248
Total capital assets not being depreciated	184,248	-	-	184,248
Capital assets being depreciated:				
Buildings	755,929	-	-	755,929
Improvements	2,378,626	-	-	2,378,626
Equipment	800,025	14,336	-	814,361
Vehicles and motorized equipment	487,649	-	-	487,649
Total capital assets being depreciated	4,422,229	14,336	-	4,436,565
Less accumulated depreciation for:				
Buildings	244,200	13,883	-	258,083
Improvements	1,458,320	67,786	-	1,526,106
Equipment	673,402	23,750	-	697,152
Vehicles and motorized equipment	349,998	47,342	-	397,340
Total accumulated depreciation	2,725,920	152,761	-	2,878,681
Total capital assets being depreciated, net	1,696,309			1,557,884
Governmental activity capital assets, net	<u>\$1,880,557</u>			<u>\$1,742,132</u>

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

General government	\$ 16,195
Public safety	57,157
Transportation	6,106
Environmental protection	35,459
Cultural and recreational	37,844
Total depreciation expense	<u>\$ 152,761</u>

Capital assets activity for the Business-Type activities for the year ended June 30, 2021, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	\$ 28,000	\$ -	\$ -	\$ 28,000
Construction in progress	-	1,409,589	-	1,409,589
Total capital assets not being depreciated	28,000	1,409,589	-	1,437,589
Capital assets being depreciated:				
Buildings	87,396	-	-	87,396
Plant and distribution systems	6,483,359	-	-	6,483,359
Furniture and maintenance equipment	2,113,367	-	-	2,113,367
Total capital assets being depreciated	8,684,122	-	-	8,684,122
Less accumulated depreciation for:				
Buildings	5,535	1,748	-	7,283
Plant and distribution systems	2,911,926	169,696	-	3,081,622
Furniture and maintenance equipment	1,576,153	60,441	-	1,636,594
Total accumulated depreciation	4,493,614	231,885	-	4,725,499
Total capital assets being depreciated, net	4,190,508			3,958,623
Business-type activities capital assets, net	<u>\$4,218,508</u>			<u>\$5,396,212</u>

Construction commitments

The Town has two Water and Sewer Fund capital projects in progress at June 30, 2021; the status of the projects at year end were as follows:

<u>Project Name</u>	<u>Total Estimated Cost</u>	<u>Spent To Date</u>	<u>Remaining Commitment</u>
CDBG Grant	\$ 1,998,672	\$ 85,124	\$ 1,913,548
Water Tank	2,110,000	1,324,465	786,535
Totals	<u>\$ 4,108,672</u>	<u>\$ 1,409,589</u>	<u>\$ 2,700,083</u>

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Kenly employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Kenly's contractually required contribution rate for the year ended June 30, 2021, was 9.70% of compensation for law enforcement officers 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 of Kenly were \$77,668 for the year ended June 30, 2021.

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

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

At June 30, 2021, the Town reported a liability of \$437,030 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, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 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 (measurement date), the Town's proportion was 0.01223%, which was an increase of 0.00134% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$156,177. At June 30, 2021, 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	\$ 55,189	\$ -
Changes of assumptions	32,524	-
Net difference between projected and actual earnings on pension plan investments	61,500	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	32,133	6,028
Town contributions subsequent to the measurement date	77,668	-
Total	<u>\$ 259,014</u>	<u>\$ 6,028</u>

\$77,668 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:		
2022	\$	48,843
2023		64,668
2024		43,607
2025		18,200
2026		-
Thereafter		-
		<hr/>
Total	\$	<u><u>175,318</u></u>

Actuarial Assumptions. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
	<u>100.0%</u>	

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

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

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 886,686	\$ 437,030	\$ 63,334

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

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description.*

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2021, the Separation Allowance's membership consisted of:

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	7
Total	<u>7</u>

2. 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 terms of the plan.

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

3. Actuarial Assumptions.

The entry age actuarial cost method was used in the December 31, 2019 valuation. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	1.93 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2019.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

4. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$0 as benefits came due for the reporting period.

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

At June 30, 2021, the Town reported a total pension liability of \$171,336. The total pension liability was measured as of December 31, 2020 based on a December 31, 2019 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2020 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2021, the Town recognized pension expense of \$20,059.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 4,658	\$ 4,978
Changes of assumptions	57,681	3,380
Town benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	<u>\$ 62,339</u>	<u>\$ 8,358</u>

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

Year ended June 30:

2022	\$ 8,068
2023	8,068
2024	8,368
2025	9,167
2026	9,615
Thereafter	10,695

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 1.93%, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.93%) or 1-percentage-point higher (2.93%) than the current rate:

	1% Decrease (0.93%)	Discount Rate (1.93%)	1% Increase (2.93%)
Total pension liability	<u>\$ 190,315</u>	<u>\$ 171,336</u>	<u>\$ 154,059</u>

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

	2021
Beginning balance	\$ 99,022
Service cost	8,763
Interest on the total pension liability	3,228
Changes of benefit terms	-
Differences between expected and actual experience in the m measurement of the total pension liability	(37) 60,360
Changes of assumptions and other inputs	
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	<u>\$ 171,336</u>

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

4. Contributions.

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

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

Following is information related to the proportionate share and pension expense for all pension plans:

	LGERS	LEOSSA	Total
Pension Expense	\$ 156,177	\$ 20,059	\$ 176,236
Pension Liability	437,030	171,336	608,366
Proportionate share of the net pension liability	0.01223%	N/A	
Deferred of Outflows of Resources			
Differences between expected and actual experience	55,189	4,658	59,847
Changes of assumptions	32,524	57,681	90,205
Net difference between projected and actual earnings on plan investments	61,500	-	61,500
Changes in proportion and differences between contributions and proportionate share of contributions	32,133	-	32,133
Benefit payments and administrative costs paid subsequent to the measurement date	77,668	-	77,668
Deferred of Inflows of Resources			
Differences between expected and actual experience	-	4,978	4,978
Changes of assumptions	-	3,380	3,380
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	6,028	-	6,028

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.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2021 were \$20,899, which consisted of \$15,749 from the Town and \$5,150 from the law enforcement officers.

d. Supplemental Retirement Income Plan for General Employees

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 general employees of the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. The Town contributes each month an amount equal to two percent of eligible employee's salary, and all amounts contributed are vested immediately. Also, the eligible employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2021 were \$18,656, which consisted of \$8,576 from the Town and \$10,080 from the general employees.

e. Other Employment Benefits

The Town provides no other employment benefits to past, present, or future employees.

2. Deferred Outflows and Inflows of Resources

Deferred outflows of resources reported on the Statement of Net Position are comprised of the following:

<u>Source</u>	<u>Amount</u>
Contributions to the pension plan in current fiscal year	\$ 77,668
Differences between expected and actual experience	59,847
Changes of assumption	90,205
Net difference between projected and actual earnings on pension plan investments	61,500
Changes in proportion and differences between employer contributions and proportionate share of contributions	32,133
Total	<u>\$ 321,353</u>

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Prepaid taxes (General Fund)	\$ -	\$ -
Taxes receivable	-	10,474
Changes in assumptions	3,380	-
Differences between expected and actual experiences	4,978	-
Net difference between projected and actual earnings on pension plan investments	-	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,028	-
Total	<u>\$ 14,386</u>	<u>\$ 10,474</u>

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in one self-funded risk financing pool administered by the North Carolina League of Municipalities. Through this pool, the Town obtains workers' compensation coverage up to the statutory limits. The pool is reinsured through commercial companies for single occurrence claims of \$250,000 up to \$5 million for workers' compensation.

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

The Town does not carry flood insurance, as management does not believe any significant bodies of water are located close enough to the town to pose such a risk. Flooding during prior storms has not been a problem.

The Town carries commercial coverage for all other risks of loss. Settled claims have not exceeded coverage in any of the past three fiscal years.

4. Claims, Judgments and Contingent Liabilities

At June 30, 2021, the Town was not a defendant in any lawsuits.

5. Long-Term Obligations

a. Installment Purchases

In January 2010, the Town entered into an agreement to finance drainage improvements for the street department. The financing contract requires annual payments of \$21,092 beginning in the fiscal year 2011 with an interest rate of 5.00%. The principal balance outstanding at June 30, 2021 was \$36,256.

In December 2012, the Town entered into a \$404,800 agreement to finance the purchase and renovation of a building to be used as the town hall. The financing agreement calls for periodic draws until the project has been completed, at which time the town loan will begin amortizing; annual payments are \$22,014 including interest at 3.50%. The principal balance outstanding at June 30, 2021 was \$348,906.

In January 2019, the Town entered into a \$40,000 agreement to finance the purchase of an excavator for use by the street department (1/3) and the water and sewer departments (2/3). The financing contract calls for annual payments to begin in fiscal year 2020 of \$8,909 each including interest at 3.69%. The principal balance outstanding at June 30, 2021 was \$24,867.

In August 2019, the Town entered into a \$70,000 agreement to finance the purchase of two vehicles for use by the police and recreation departments. The financing contract calls for annual payments to begin in fiscal year 2020 of \$14,497 and increase to \$18,872 in fiscal year 2021, including interest at 3.09%. The principal balance outstanding at June 30, 2021 was \$0.

b. Bond Anticipation Note

In October 2020, the Town entered into an agreement to borrow \$983,000 on a Bond Anticipation Note, to provide interim financing as part of the Water and Sewer Capital Projects Fund construction of a new water tank. This note was paid off on February 1, 2022 along with accrued interest of \$19,339 and replaced with a USDA Revenue Bond in the same amount. The principal balance outstanding at June 30, 2021 \$983,000.

Annual debt service payments of the installment purchases as of June 30, 2021, including \$154,004 of interest, are as follows:

Year Ending June 30	<u>Governmental Activities</u>		<u>Business-type Activities</u>	
	Principal	Interest	Principal	Interest
2022	\$ 30,587	\$ 14,526	\$ 5,328	\$ 612
2023	31,923	15,227	5,524	416
2024	33,318	13,868	5,726	212
2025	31,807	12,448	-	-
2026	12,130	11,074	-	-
Thereafter	270,264	85,621	-	-
Totals	<u>\$ 410,029</u>	<u>\$ 152,764</u>	<u>\$ 16,578</u>	<u>\$ 1,240</u>

c. General Obligation Indebtedness

At June 30, 2021, the Town of Kenly had no bonds authorized but unissued and a legal debt margin of \$11,809,973.

d. Changes in Long-Term Liabilities

	Balance June 30, 2020	Increase	Decrease	Balance June 30, 2021	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 495,987	\$ -	\$ 85,958	\$ 410,029	\$ 30,587
Compensated absences	39,673	2,964	-	42,637	42,637
Net pension liability (LGERS)	197,501	102,345	-	299,846	-
Total pension liability (LEO)	99,022	72,314	-	171,336	-
Governmental activity					
Long-term liabilities	<u>\$ 832,183</u>	<u>\$ 177,623</u>	<u>\$ 85,958</u>	<u>\$ 923,848</u>	<u>\$ 73,224</u>
Business-type activities:					
Installment purchases	\$ 21,714	\$ -	\$ 5,136	\$ 16,578	\$ 5,328
Compensated absences	24,763	-	860	23,903	23,903
Bond anticipation notes*	-	983,000	-	983,000	-
Net pension liability (LGERS)	99,896	37,288	-	137,184	-
Business-type activity					
Long-term liabilities	<u>\$ 146,373</u>	<u>\$ 1,020,288</u>	<u>\$ 5,996</u>	<u>\$ 1,160,665</u>	<u>\$ 29,231</u>

* to be refinanced by long term bonds, so this note is not treated as current

C. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2021, consist of the following:

None at June 30, 2021.

Transfers to/from other funds at June 30, 2021, consist of the following:

None during this year.

D. Fund Balance

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

Total fund balance - General Fund		\$ 1,024,947
Less:		
Stabilization by State Statute	148,378	
Streets - Powell Bill	82,315	
Police - Drug Fund	7,678	
USDA debt service	18,722	
Appropriated Fund Balance 2021-2022	<u>-</u>	<u>(257,093)</u>
Remaining Fund Balance		<u>\$ 767,854</u>

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreements. Such audits could result in the refund of grant 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 moneys.

V. Subsequent Events

Subsequent events were evaluated through January 27, 2023, which is the date the financial statements were available to be issued.

VI. Restatement

Prior Period Adjustment

During the fiscal year ended June 30, 2021, the Town determined that an installment purchase agreement serviced by the General Fund was understated by \$38,534 due to posting errors in prior years. Therefore, an adjustment to beginning net position was required in the government-wide statements; the effect was to increase general government long-term debt and decrease General Fund net position \$38,534. Fund balance in the General Fund modified-accrual basis statements and schedules were not affected.

Required Supplementary Financial Data

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

- Schedule of Proportionate Share of Net Pension Liability for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System
- Schedule of Changes in Total Pension Liability
- Schedule of Total Pension Liability as a Percentage of Covered Payroll

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

Local Government Employees' Retirement System

	2021	2020	2019	2018	2017	2016	2015	2014
Kenly's proportion of the net pension liability (asset) (%)	0.00134%	0.01089%	0.00886%	0.01046%	0.01230%	0.01274%	0.01016%	0.01230%
Kenly's proportion of the net pension liability (asset) (\$)	\$ 437,030	\$ 297,397	\$ 210,190	\$ 159,800	\$ 289,720	\$ 57,176	\$ (59,918)	\$ 148,262
Kenly's covered-employee payroll	\$ 825,729	\$ 760,467	\$ 607,672	\$ 719,428	\$ 711,642	\$ 651,751	\$ 616,750	\$ 606,750
Kenly's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	52.93%	39.11%	34.59%	22.21%	40.71%	8.77%	-9.72%	24.44%
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	94.18%	91.47%	98.09%	99.07%	102.64%	94.35%	96.45%

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

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

Town of Kenly, North Carolina
Town of Kenly's Contributions
Required Supplementary Information
Last Eight Fiscal Years

Local Government Employees' Retirement System

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 77,668	\$ 76,273	\$ 61,221	\$ 47,799	\$ 54,409	\$ 48,875	\$ 46,992	\$ 44,158
Contributions in relation to the contractually required contribution	<u>77,668</u>	<u>76,273</u>	<u>61,221</u>	<u>47,799</u>	<u>54,409</u>	<u>48,875</u>	<u>46,992</u>	<u>44,158</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Kenly's covered-employee payroll	\$ 743,786	\$ 825,729	\$ 760,467	\$ 678,506	\$ 760,646	\$ 719,428	\$ 711,642	\$ 651,751
Contributions as a percentage of covered-employee payroll	10.44%	9.24%	8.05%	7.04%	7.15%	6.79%	6.60%	6.78%

Town of Kenly, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 99,022	\$ 78,367	\$ 71,327	\$ 67,544	\$ 60,334
Service Cost	8,763	7,452	9,058	6,754	7,168
Interest on the total pension liability	3,228	2,853	2,254	2,607	2,154
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(37)	6,099	428	(11,634)	-
Changes of assumptions and other inputs	60,360	4,251	(4,700)	6,056	(2,112)
Benefit payments	-	-	-	-	-
Other changes	-	-	-	-	-
Ending balance of the total pension liability	<u>\$ 171,336</u>	<u>\$ 99,022</u>	<u>\$ 78,367</u>	<u>\$ 71,327</u>	<u>\$ 67,544</u>

Town of Kenly, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2021

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 171,336	\$ 99,022	\$ 78,367	\$ 71,327	\$ 67,544
Covered payroll	297,872	287,793	322,501	264,032	309,311
Total pension liability as a percentage of covered payroll	57.52%	34.41%	24.30%	27.01%	21.84%

Notes to the schedules:

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

Individual Fund Statements and Schedules

Town of Kenly, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2021

	2021		Variance
	Budget	Actual	Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 1,017,332	\$
Penalties and interest		3,947	
Total	928,266	1,021,279	93,013
Other taxes and licenses:			
Privilege licenses		4,710	
Total	-	4,710	4,710
Unrestricted intergovernmental:			
Local option sales taxes		400,712	
Telecommunications sales tax		7,878	
Utility sales tax		81,845	
Video franchise fee		3,190	
Gasoline tax refunds		5,256	
Beer and wine tax		5,985	
County COVID grant		51,422	
ABC profit distribution		9,211	
Total	450,304	565,499	115,195
Restricted intergovernmental:			
Powell Bill allocation		41,199	
Solid waste disposal tax		1,073	
Police fines		5	
Total	42,900	42,277	(623)
Permits and fees:			
Building permits/zoning fees		5,550	
Facility fees		450	
Total	2,600	6,000	3,400
Sales and services:			
Garbage collection		157,888	
Library fees		667	
Code Enforcement		400	
Recreation department fees		14,360	
Total	171,510	173,315	1,805
Investment earnings	100	40	(60)

Town of Kenly, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2021

	2021		Variance
	Budget	Actual	Positive (Negative)
Miscellaneous:			
All other		2,779	
Total	7,000	2,779	(4,221)
Total revenues	1,602,680	1,815,899	213,219
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits		7,521	
Other operating expenditures		75	
Community activities		12,462	
Total		20,058	
Administration:			
Salaries and employee benefits		53,683	
Professional services		16,007	
Tax collection		24,093	
Other operating expenditures		47,060	
Reimbursement - proprietary fund		(17,107)	
Total		123,736	
Code enforcement:			
Salaries and employee benefits		45,491	
Contracted services		6,808	
Other operating expenditures		6,954	
Total		59,253	
Total general government	279,053	203,047	76,006

Town of Kenly, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2021

	2021		Variance
	Budget	Actual	Positive (Negative)
Public safety:			
Police:			
Salaries and employee benefits		449,919	
Vehicle maintenance		29,996	
Insurance and bonds		25,529	
Other operating expenditures		42,886	
Capital outlay		-	
Total		<u>548,330</u>	
Fire:			
Contracted services		<u>128,119</u>	
Total		<u>128,119</u>	
Total public safety	<u>761,955</u>	<u>676,449</u>	<u>85,506</u>
Transportation:			
Streets and highways:			
Salaries and employee benefits		77,464	
Vehicle maintenance		9,391	
Street lights		38,147	
Contracted services		11,086	
Other operating expenditures		20,309	
Capital outlay		-	
Total transportation	<u>191,044</u>	<u>156,397</u>	<u>34,647</u>
Economic and physical development:			
Economic development		<u>(2,335)</u>	
Total economic and physical development	<u>35,000</u>	<u>(2,335)</u>	<u>37,335</u>
Environmental protection:			
Solid waste:			
Contracted services		83,348	
Insurance and bonds		<u>1,669</u>	
Total		<u>85,017</u>	

Town of Kenly, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2021

	2021		Variance
	Budget	Actual	Positive (Negative)
Cemetery:			
Other operating expenditures		-	
Total		-	
Total environmental protection	88,844	85,017	3,827
Planning board:			
Insurance and bonds			
Other operating expenditures		1,574	
Total planning board	2,998	1,574	1,424
Culture and recreation:			
Library:			
Salaries and employee benefits		48,697	
Utilities		2,984	
Other operating expenditures		17,998	
Capital outlay		3,460	
Total		73,139	
Parks and recreation:			
Salaries and employee benefits		78,533	
Utilities		28,691	
Contracted services		15,947	
Departmental supplies		25,729	
Other operating expenditures		22,583	
Capital outlay		10,876	
Total		182,359	
Total culture and recreation	281,439	255,498	25,941
Debt service:			
Principal retirement	27,606	85,958	(58,352)
Interest and other charges	18,500	18,487	13
Total debt service	46,106	104,445	(58,339)
Total expenditures	1,686,439	1,480,092	206,347
Revenues over (under) expenditures	(83,759)	355,807	419,566

Town of Kenly, North Carolina
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2021

	2021		Variance Positive (Negative)
	Budget	Actual	
Other financing sources (uses):			
Fund balance appropriated	83,759	-	(83,759)
Installment purchase proceeds	-	-	-
Transfers (to) from other funds	-	-	-
Grant Projects Funds	-	-	-
Sale of capital assets	-	-	-
Total	<u>83,759</u>	<u>-</u>	<u>(83,759)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	335,807	<u>\$ 335,807</u>
Fund balances:			
Beginning of year, July 1		689,141	
End of year, June 30		<u>\$ 1,024,947</u>	

Town of Kenly, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales	\$	\$ 499,013	\$
Sewer charges		793,188	
Water and sewer taps		12,650	
Other operating revenues		69,274	
Total operating revenues	1,308,138	1,374,125	65,987
Nonoperating revenues:			
Investment earnings	250	116	(134)
Total revenues	1,308,388	1,374,241	65,853
Expenditures:			
Water and sewer administration:			
Salaries and employee benefits		121,412	
Professional services		18,051	
Supplies		3,652	
Insurance		7,692	
Other operating expenditures		10,795	
Contracted services		21,079	
Utility service fee		17,107	
Total water and sewer administration	252,512	199,788	52,724
Water treatment and distribution:			
Salaries and employee benefits		81,144	
Water purchases		211,194	
Contracted services		24,018	
Other operating expenditures		55,387	
Total water treatment and distribution	499,376	371,743	77,633
Waste collection and treatment:			
Salaries and employee benefits		156,809	
Contracted services		248,815	
Supplies		76,680	
Maintenance and repairs		105,690	
Other operating expenditures		94,959	
Total waste collection	693,633	682,953	10,680
Debt service:			
Interest and other charges	625	624	1
Principal retirement	5,375	5,136	239
Total debt service	6,000	5,760	240
Total expenditures	1,400,521	1,260,244	141,277
Revenues over expenditures	(93,133)	113,997	207,130

Town of Kenly, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Fiscal Year Ended June 30, 2021

	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Other financing sources (uses):			
Installment obligation	-	-	-
Transfer to other fund:			
Water and Sewer Capital Project	-	-	-
Net position appropriated	<u>93,133</u>	<u>-</u>	<u>(93,133)</u>
Total other financing sources (uses)	<u>93,133</u>	<u>-</u>	<u>(93,133)</u>
Revenues and other sources over expenditures and other uses	<u>\$ -</u>	<u>\$ 113,997</u>	<u>\$ 113,997</u>

**Reconciliation from budgetary basis
(modified accrual) to full accrual:**

Reconciling items:	
Principal retirement	5,136
Capital outlay	-
Decrease in accrued vacation pay	860
Decrease in accrued interest payable	89
Depreciation	(231,885)
Interest accrued in the Capital Projects Fund	(10,224)
Federal grant	315,300
(Increase) in net pension liability	(37,288)
Increase in deferred outflows of resources - pensions	8,929
Decrease in deferred inflows of resources - pensions	5,450
Total reconciling items	<u>56,367</u>
Change in net position	<u>\$ 170,364</u>

Town of Kenly
Water and Sewer Capital Projects Fund - CDBG Grant
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2021

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues - Sewer Project:					
Restricted Intergovernmental:					
Federal grant	\$ 1,998,672	\$ -	\$ 85,108	\$ 85,108	\$ (1,913,564)
Investment earnings	-	-	-	-	-
Total revenues	1,998,672	-	85,108	85,108	(1,913,564)
Expenditures - Sewer Project:					
Administration	199,142	-	16	16	199,126
Engineering	341,746	-	-	-	341,746
Construction	1,457,784	-	85,108	85,108	1,372,676
Total expenditures	1,998,672	-	85,124	85,124	1,913,548
Revenues (under) expenditures	-	-	(16)	(16)	(16)
Other financing sources:					
Advance from Water and Sewer Fund	-	-	16	16	16
Revenues (under) other sources and expenditures	\$ -	\$ -	\$ -	\$ -	\$ -

Town of Kenly
Water and Sewer Capital Projects Fund - Water Tank
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
From Inception and For the Fiscal Year Ended June 30, 2021

	Project		Actual		Variance
	Authorization	Prior	Current	Total to	Positive
		Years	Year	Date	(Negative)
Revenues - Water Project:					
Restricted Intergovernmental:					
Federal grant	\$ 1,128,000	\$ -	\$ 230,192	\$ 230,192	\$ (897,808)
Investment earnings	-	-	-	-	-
Total revenues	1,128,000	-	230,192	230,192	(897,808)
Expenditures -Water Project:					
Engineering	25,000	-	-	-	25,000
Design and administration	132,135	-	-	-	132,135
Construction observation	110,880	-	203,989	203,989	(93,109)
Surveying	15,000	-	-	-	15,000
Soil testing	18,500	-	-	-	18,500
Geo-technical investigation	24,000	-	-	-	24,000
Local counsel	10,000	-	-	-	10,000
Bond counsel	25,000	-	18,750	18,750	6,250
Construction	1,441,760	-	1,101,407	1,101,407	340,353
Contingency	258,725	-	319	319	258,406
Interest (interior financing	50,000	-	10,224	10,224	39,776
Total expenditures	2,111,000	-	1,334,689	1,334,689	776,311
Revenues (under) expenditures	(983,000)	-	(1,104,497)	(1,104,497)	(121,497)
Other financing sources:					
General obligation bonds	983,000	-	-	-	(983,000)
Bond anticipation loan	-	-	983,000	983,000	983,000
Total other sources	983,000	-	983,000	983,000	-
Revenues and other sources over (under) expenditures	\$ -	\$ -	\$ (121,497)	\$ (121,497)	\$ (121,497)

Other Schedules

Town of Kenly, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2021

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2020</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2021</u>
2020-2021	\$ -	\$ 1,011,109	\$ 1,005,751	\$ 5,358
2019-2020	12,505	-	10,435	2,070
2018-2019	1,778	613	1,907	484
2017-2018	1,211	617	1,424	404
2016-2017	678	617	900	395
2015-2016	31	-	-	31
2014-2015	31	-	-	31
2013-2014	482	-	19	463
2012-2013	690	-	-	690
2011-2012	560	-	12	548
2010-2011	296	-	296	-
	<u>\$ 18,262</u>	<u>\$ 1,012,956</u>	<u>\$ 1,020,744</u>	<u>10,474</u>

Less: allowance for uncollectible accounts:
General Fund

-

Ad valorem taxes receivable - net

\$ 10,474

Reconcilement with revenues:

Ad valorem taxes - General Fund

\$ 1,021,279

Reconciling items:

Interest collected

(3,947)

Taxes written off or released

3,412

Subtotal

(535)

Total collections and credits

\$ 1,020,744

Town of Kenly, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
For the Fiscal Year Ended June 30, 2021

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 166,154,754	0.61	\$ 1,013,544	\$ 946,245	\$ 67,299
Discoveries:					
Current and prior year taxes	111,639		681	681	-
Releases	(510,820)		(3,116)	(3,116)	-
Total property valuation	<u>\$ 165,755,573</u>				
Net levy			1,011,109	943,810	67,299
Unpaid (by taxpayer) taxes at June 30, 2021			(5,358)	(5,358)	-
Current year's taxes collected			<u>\$ 1,005,751</u>	<u>\$ 938,452</u>	<u>\$ 67,299</u>
Current levy collection percentage			<u>99.47%</u>	<u>99.43%</u>	<u>100.00%</u>

Compliance Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs

N. C. Association of CPAs

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

To the Honorable Mayor and
Board of Town Council
Town of Kenly, North Carolina

We have audited, 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, 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 Kenly, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprises the Town of Kenly's basic financial statements and have issued our report thereon dated January 27, 2023.

Internal Control over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or 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. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be a significant deficiency (2021-002).

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 were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be material weaknesses (2021-001 and 2021-003).

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Kenly's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standard* and which is described in the schedule of findings and responses as item 2021-002.

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 entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

S. Porter Doughton & Associates, LLP

Lumberton, North Carolina
January 27, 2023

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs

N. C. Association of CPAs

Independent Auditor's Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; With OMB Uniform Guidance and the State Single Audit Implementation Act

To the Honorable Mayor and
Board of Town Council
Town of Kenly, North Carolina

Report on Compliance for Each Major Federal Program

We have audited the Town of Kenly's 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 of Kenly's major federal programs for the year ended June 30, 2021. The Town of Kenly'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 Federal statutes and State statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Kenly'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 Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require 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 of Kenly'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 Town of Kenly's compliance.

Opinion on Each Major State Program

In our opinion the Town of Kenly 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, 2021.

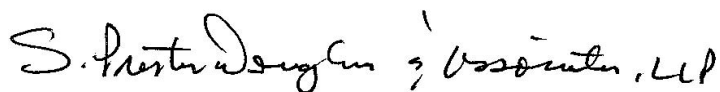
Report on Internal Control Over Compliance

Management of Town of Kenly 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 Town of Kenly's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an 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 Town of Kenly'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 a 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 material weaknesses or significant deficiencies. 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.

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.



Lumberton, North Carolina
January 27, 2023

Town of Kenly, North Carolina
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2021

Section I. Summary of Auditor's Results
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Financial Statements

Type of auditor's report issued:	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	___ <u>X</u> ___ yes ___ no
• Significant deficiency(s) identified that are not considered to be material weaknesses	___ <u>X</u> ___ yes ___ none reported
• Noncompliance material to financial statements	___ <u>X</u> ___ yes ___ no

Federal Awards

Internal control over major federal programs

• Material weakness(es) identified?	___ yes	___ <u>X</u> ___ no
• Significant deficiency(s) identified that are not considered to be material weaknesses	___ yes	___ <u>X</u> ___ no

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

<u>Names of Federal Program or Cluster</u>	<u>CFDA</u> <u>Numbers</u>
Water and Waste Disposal Systems for Rural Communities	10.760

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 Kenly, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2021

Section II. Financial Statement Findings

MATERIAL WEAKNESS

Finding: 2021 - 001 Segregation of Duties

Criteria: Segregation of duties provide checks and balances to reduce possibilities for misstatements resulting from errors in judgements, dishonesty, personal carelessness, distraction, and fatigue.

Condition: The Town has a limited number of personnel for accounting functions which creates inherent limitations on the effectiveness of certain controls due to the lack of segregation of duties among the Town's personnel.

Effect: Potential misstatement of financial statements

Cause: The Town has a limited number of personnel for accounting functions which creates inherent limitations on the effectiveness of certain controls due to the lack of segregation of duties among the Town's personnel.

Repeat Finding: This was not a repeat finding.

Recommendation: The board should continually keep in mind that internal controls are limited due to the size of the Town's staff.

View of responsible officials and planned corrective actions:

The Town agrees with the finding and agrees to adhere to the corrective action plan on page 68.

Town of Kenly, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2021

Section II. Financial Statement Findings (continued)

MATERIAL WEAKNESS/MATERIAL NONCOMPLIANCE

Finding: 2021 - 002 Late Audit

Criteria:	N.C. General Statute 159-34(a) states the Town should have its accounts audited as soon as possible after the close of each fiscal year by a certified public accountant. The deadline to submit June 30 year end audits to the Local Government Commission is October 31. The October 31 deadline includes a grace period from November 1 to December 1, in which there are no additional documents or notifications needed.
Condition:	The June 30, 2021 audit which was due October 31, 2021, was submitted late on January 31, 2023.
Effect:	By submitting the audit late, the board or other agencies such as the Local Government Commission do not have the opportunity to receive important, timely feedback from the independent auditor such as internal control deficiencies or financial statement trends.
Cause:	The Town has had difficulties securing a new audit firm after losing their auditor who conducted the audit for multiple decades.
Repeat Finding:	This was not a repeat finding.
Recommendation:	The Town should make the necessary adjustments to meet the October 31 audit deadline.
View of responsible officials and planned corrective actions:	
	The Town agrees with the finding and agrees to adhere to the corrective action plan on page 68.

Town of Kenly, North Carolina
Schedule of Findings and Questioned Costs (continued)
For the Year Ended June 30, 2021

Financial Statement Findings (continued)

SIGNIFICANT DEFICIENCY

Finding 2021-003 Excess of Expenditures over Appropriations

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

Condition: Budget over-expenditures totaling \$58,339 occurred in the debt service department line item.

Effect: Expenditures were incurred that had not been budgeted.

Cause: The lack of adequate training in the Finance Department led to improper oversight of finance operations.

Repeat Finding: This was not a repeat finding.

Recommendation: We recommend that the Town finance officer position obtain the prior training in governmental finance.

Views of responsible officials and planned corrective actions:

The Town agrees with the finding and agrees to adhere to the correction action plan on page 68.



**Town of Kenly, North Carolina
Corrective Action Plan
For the Year Ended June 30, 2021**

MATERIAL WEAKNESS

Finding: 2021-001 Segregation of Duties

Name of contact person: Tony Sears, Interim Town Manager

Corrective Action: The duties will be separated to the extent possible and alternative controls will be used to compensate for lack of separation. The Town will continue to monitor its internal controls in an effort to alleviate inherent limitations placed on small towns. It is the Town's desire/plan to add the Town's growth is expected to provide additional revenue. Additional staff would help with being able to separate duties however, the Town does not intend to add staff at this time due to financial constraints. The Finance staff will ensure that the Town Manager position is incorporated into the approval process of all financial procedures. In the event that the Town Manager position is vacant, the Mayor will provide this level of internal control.

Proposed Completion Date: The Town has implemented the above procedures.

MATERIAL WEAKNESS

Finding: 2021 - 002 Late Audit

Name of contact person: Tony Sears, Interim Town Manager

Corrective Action: Due to the Town having limited finance staff, we have contacted several CPA firms for quotes to assist the finance staff with year-end entries and closing procedures. This support will allow our finance staff the ability to provide information to the auditing firm in a timelier manner. The Town believes the current audit firm is a responsive and capable auditing firm. If we are able continue the relationship for the 2022 audit, we are confident that they have the staff and resources to submit the audit in a timely manner going forward.

Proposed Completion Date: The Town will implement the above procedures immediately.

SIGNIFICANT DEFICIENCY

Finding 2020-003 Excess of Expenditures over Appropriations

Name of Contact Person: Tony Sears, Interim Town Manager

Corrective Action: The Town is currently working with a contracted accountant. We will continue to work on implementing standard operating procedures and policies targeted on budgeting and financial management. The Town will be implementing stronger financial controls to ensure that all purchases are pre-audited as required by NCGS 159-28(a).

Proposed Completion Date: The Town will implement the above procedures immediately.

Town of Kenly, North Carolina
Schedule of Expenditures of Federal and State Awards
For the Fiscal Year Ended June 30, 2021

Grantor/Pass-through Grant/Program Title	Federal CFDA Number	Award Number/State Pass-through Grantor's Number	Federal (Direct Pass- through) Expenditures	State Expenditures
Federal Grants:				
Direct Programs:				
US Department of Agriculture				
Water and Waste Disposal Systems for Rural Communities	10.760		\$ 1,334,689	\$ -
US Housing and Urban Development and NC Dept. of Environmental Quality				
Community Development Block Grant	14.228	19-I-3109	85,124	-
Total federal assistance			1,419,813	-
Total assistance			\$ 1,419,813	\$ -

Notes to the Schedule of Expenditures of Federal and State Awards:

Note 1: Basis of Presentation

The accompanying schedule of expenditures of Federal and State awards (SEFSA) includes the federal and State grant activity of the Town of Kenly under the programs of the federal government and the State of North Carolina for the year ended June 30, 2021. The information in this SEFSA is presented in accordance with the requirements of Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of Kenly, it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town of Kenly.

Note 2: Summary of Significant Accounting Policies

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

Note 3: Indirect Cost Rate

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

Note 4: Loan Balance

The outstanding balance of the USDA bond anticipation loan is \$983,000.