

TOWN OF MAGNOLIA  
MAGNOLIA, NORTH CAROLINA  
  
ANNUAL FINANCIAL REPORT  
Year Ended June 30, 2021

Mayor

Gwendolyn Vann

Town Manager

Kimberly Miles

Commissioners

Denver McMahan

Elvenia Wilson

Kimberly Miles

Charles Rogers

Ruth Quinn

**Town of Magnolia, North Carolina**  
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**June 30, 2021**

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## **Independent Auditor's Report**

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

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Magnolia, North Carolina, as of and for the year ended June 30, 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 *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

### ***Opinions***

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

### ***Other Matters***

#### ***Required Supplementary Information***

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

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

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

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 29, 2021, on our consideration of the Town of Magnolia's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Magnolia's internal control over financial reporting and compliance.

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

Wilmington, North Carolina

November 29, 2021

### Management's Discussion and Analysis

As management of the Town of Magnolia (the "Town"), we offer readers of the Town of Magnolia's financial statements this narrative overview and analysis of the financial activities of the Town of Magnolia for the fiscal year ended June 30, 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.

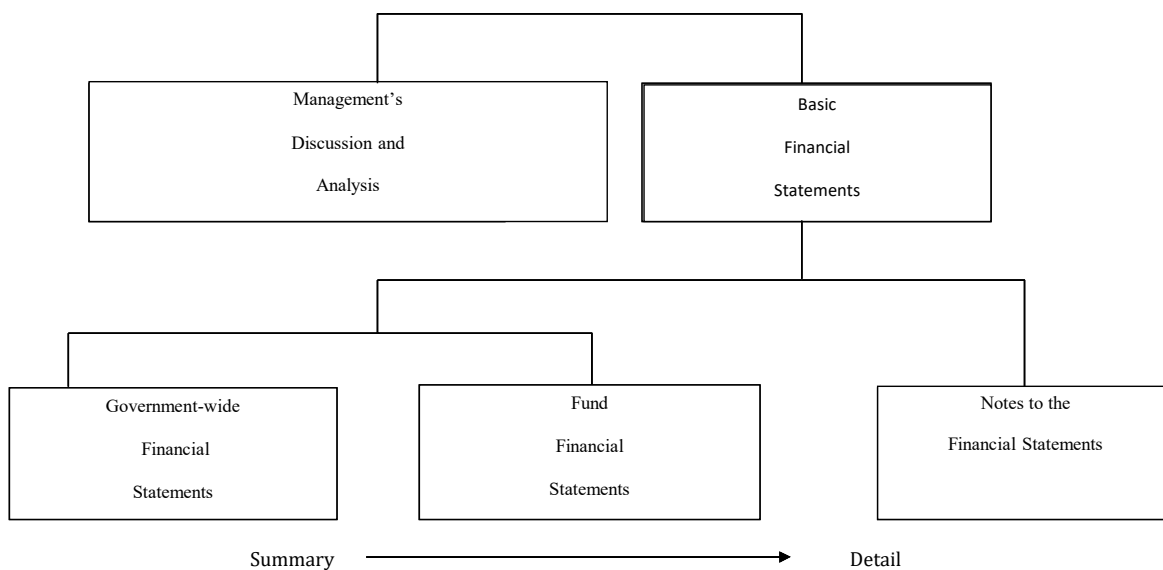
#### Financial Highlights

- The assets and deferred outflows of resources of the Town of Magnolia exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$6,598,340 (*net position*).
- The Town's total net position decreased by \$44,833, primarily due to business-type activities showing a loss of \$152,485.
- As of the close of the current fiscal year, the Town of Magnolia's governmental funds reported combined ending fund balances of \$700,541 with a net increase of \$86,999 in fund balance. Approximately 60% percent of this total amount, or \$422,338 is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$278,203, or 43% of total general fund expenditures for the fiscal year.

#### Overview of the Financial Statements

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

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





## Basic Financial Statements

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

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

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

## Government-Wide Financial Statements

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

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

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

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

## Fund Financial Statements

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

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

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

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

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

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

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

**Government-Wide Financial Analysis**

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

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Current and other assets	\$ 783,757	\$ 702,705	\$ (40,624)	\$ 38,637	\$ 743,133	\$ 741,342
Capital assets	313,238	309,049	5,798,432	5,893,223	6,111,670	6,202,272
Deferred outflows of resources	68,904	41,578	28,653	18,761	97,557	60,339
Total assets and deferred outflows of resources	1,165,899	1,053,332	5,786,461	5,950,621	6,952,360	7,003,953
Long-term liabilities outstanding	197,109	167,285	94,716	105,506	291,825	272,791
Other liabilities	43,702	32,212	13,691	30,398	57,393	62,610
Deferred inflows of resources	4,645	3,832	157	314	4,802	4,146
Total liabilities and deferred inflows of resources	245,456	203,329	108,564	136,218	354,020	339,547
Net position:						
Net investment in capital assets	193,238	206,260	5,798,432	5,877,244	5,991,670	6,083,504
Restricted	422,338	312,550	-	-	422,338	312,550
Unrestricted	304,867	331,192	(120,535)	(62,841)	184,332	268,351
Total net position	\$ 920,443	\$ 850,002	\$ 5,677,897	\$ 5,814,403	\$ 6,598,340	\$ 6,664,405

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Magnolia exceeded liabilities and deferred inflows by \$6,598,340 as of June 30, 2021. The Town's net position decreased by \$44,833 for the fiscal year ended June 30, 2021. However, the largest portion \$5,991,670 (91%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Magnolia uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Magnolia's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Magnolia's net position, \$422,338 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$184,332 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 91.77%.

**Town of Magnolia's Changes in Net Position**

**Figure 3**

	Governmental Activities		Business Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Revenues:						
Program revenues:						
Charges for services	\$ 117,814	\$ 103,235	\$ 309,228	\$ 328,321	\$ 427,042	\$ 431,556
Operating grants and contributions	32,620	34,469	-	-	32,620	34,469
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	209,986	170,318	-	-	209,986	170,318
Other taxes	325,563	268,362	-	-	325,563	268,362
Grants and contributions not restricted to specific programs	-	-	182,164	-	182,164	-
Other	55,972	70,949	5,272	43,437	61,244	114,386
Total revenues	741,955	647,333	496,664	371,758	1,238,619	1,019,091
Expenses:						
General government	232,596	218,481	-	-	232,596	218,481
Public safety	210,353	235,289	-	-	210,353	235,289
Cultural and recreation	107,333	96,793	-	-	107,333	96,793
Transportation	67,833	72,866	-	-	67,833	72,866
Environmental protection	10,924	44,053	-	-	10,924	44,053
Interest on long-term debt	5,264	5,293	-	-	5,264	5,293
Water and sewer	-	-	649,149	607,954	649,149	607,954
Total expenses	634,303	672,775	649,149	607,954	1,283,452	1,280,729
Increase in net position before transfers	107,652	(25,442)	(152,485)	(236,196)	(44,833)	(261,638)
Increase (decrease) in net position	107,652	(25,442)	(152,485)	(236,196)	(44,833)	(261,638)
Net position, beginning	850,002	875,444	5,814,403	6,050,599	6,664,405	6,926,043
Restatement	(37,211)	-	15,979	-	(21,232)	-
Net position, beginning, restated	812,791	875,444	5,830,382	6,050,599	6,643,173	6,926,043
Net position, ending	\$ 920,443	\$ 850,002	\$ 5,677,897	\$ 5,814,403	\$ 6,598,340	\$ 6,664,405

**Governmental activities.** Governmental activities increased the Town's net position by \$107,652, thereby accounting for 133,094 difference from prior year. Key elements of this decrease are as follows:

- Increased town revenues.

**Business-type activities.** Business-type activities decreased the Town of Magnolia's net position by \$152,485. The business-type activities have shown a loss \$388,681 over the past two year. Key elements of this decrease are as follows:

- Increased town expenses.

### Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Magnolia. At the end of the current fiscal year, fund balance unassigned in the General Fund was \$278,203 while total fund balance reached \$700,541. The Town currently has an unassigned fund balance of 43% of general fund expenditures, while total fund balance represents 108% of the same amount.

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

**Proprietary Funds.** The Town of Magnolia's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$(120,535). The total change in net position was an decrease of \$152,485. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town of Magnolia's business-type activities.

### Capital Asset and Debt Administration

**Capital assets.** The Town of Magnolia's investment in capital assets for its governmental and business-type activities as of June 30, 2021 totals \$6,111,670 (net of accumulated depreciation). These assets include buildings, land, water/sewer systems, machinery and equipment, and vehicles.

Major capital asset transactions during the year include the following:

- General fund police department purchased several vehicles for \$28,004.
- Sewer CDBG Project spent \$182,164.

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

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Land	\$ 25,144	\$ 25,144	\$ 13,600	\$ 13,600	\$ 38,744	\$ 38,744
Buildings and system	260,829	279,242	-	-	260,829	279,242
Substations, lines, and related equipment	-	-	5,531,928	5,790,749	5,531,928	5,790,749
Machinery and equipment	27,265	4,660	52,120	70,254	79,385	74,914
Construction in progress	-	-	200,784	18,620	200,784	18,620
Total	\$ 313,238	\$ 309,046	\$ 5,798,432	\$ 5,893,223	\$ 6,111,670	\$ 6,202,269

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

**Long-term Debt.** The Town of Magnolia's total debt decreased by \$20,000 during the current fiscal year, due to loan payments.

**Outstanding Debt  
Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Installment debt	\$ 120,000	\$ 140,000	\$ -	\$ -	\$ 120,000	\$ 140,000
Compensated Absences	2,786	4,554	4,777	8,307	7,563	12,861
Total	<u>\$ 122,786</u>	<u>\$ 122,789</u>	<u>\$ 4,777</u>	<u>\$ 31,153</u>	<u>\$ 127,563</u>	<u>\$ 152,861</u>

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue up to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Magnolia is \$2,303,152.

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

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

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

- Unemployment rates remained low.
- The Town plan's to start construction on the new Sewer Capital Project in the fiscal year 2022.

#### **Requests for Information**

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

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

	<b>Primary Government</b>		
	<b>Governmental</b>	<b>Business-type</b>	
	<b>Activities</b>	<b>Activities</b>	<b>Total</b>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 258,604	\$ -	\$ 258,604
Restricted cash	178,435	58,571	237,006
Receivables (net)	199,348	48,175	247,523
Internal balances	147,370	(147,370)	-
Capital assets:			
Land, improvements, and construction in progress	25,144	214,384	239,528
Other capital assets, net of depreciation	288,094	5,584,048	5,872,142
Total capital assets	313,238	5,798,432	6,111,670
Total assets	1,096,995	5,757,808	6,854,803
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension deferrals - LGERS	53,212	28,653	81,865
Pension deferrals - LEO	15,692	-	15,692
Total deferred outflows of resources	68,904	28,653	97,557
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued expenses	20,916	8,914	29,830
Compensated absences - current	2,786	-	2,786
Current portion of long-term liabilities	20,000	4,777	24,777
Long-term liabilities:			
Liabilities payable from restricted assets:			
Deposits	-	58,571	58,571
Net pension liability	67,127	36,145	103,272
Total pension liability	29,982	-	29,982
Due in more than one year	100,000	-	100,000
Total liabilities	240,811	108,407	349,218
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals - LGERS	291	157	448
Pension deferrals - LEO	4,354	-	4,354
Total deferred inflows of resources	4,645	157	4,802
<b>NET POSITION</b>			
Net investment in capital assets	193,238	5,798,432	5,991,670
Restricted for:			
Stabilization by State statute	243,903	-	243,903
Streets	178,435	-	178,435
Unrestricted (deficit)	304,867	(120,535)	184,332
Total net position	\$ 920,443	\$ 5,677,897	\$ 6,598,340

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

Program Revenues					Net (Expense) Revenue and Changes in Net Position		
					Primary Government		
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 232,596	\$ 630	\$ -	\$ -	\$ (231,966)	\$ -	\$ (231,966)
Public safety	210,353	1,333	-	-	(209,020)	-	(209,020)
Cultural and recreation	107,333	-	-	-	(107,333)	-	(107,333)
Transportation	67,833	-	32,620	-	(35,213)	-	(35,213)
Environmental protection	10,924	115,851	-	-	104,927	-	104,927
Interest on long-term debt	5,264	-	-	-	(5,264)	-	(5,264)
Total governmental activities	634,303	117,814	32,620	-	(483,869)	-	(483,869)
Business-type activities:							
Water	649,149	309,228	-	182,164	-	(157,757)	(157,757)
Total business-type activities	649,149	309,228	-	182,164	-	(157,757)	(157,757)
Total Primary Government	\$ 1,283,452	\$ 427,042	\$ 32,620	\$ 182,164	-	(157,757)	(641,626)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					209,986	-	209,986
Local option sales tax					325,563	-	325,563
Other taxes and licenses					44,531	-	44,531
Investment earnings, unrestricted					23	-	23
Miscellaneous, unrestricted					11,418	5,272	16,690
Total general revenues not including transfers					591,521	5,272	596,793
Transfers					-	-	-
Total general revenues and transfers					591,521	5,272	596,793
Change in net position					107,652	(152,485)	(44,833)
Net position, beginning					850,002	5,814,403	6,664,405
Restatement					(37,211)	15,979	(21,232)
Net position, beginning, restated					812,791	5,830,382	6,643,173
Net position, ending					\$ 920,443	\$ 5,677,897	\$ 6,598,340

**Town of Magnolia, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2021**

	<u>General Fund</u>	<u>Total Governmental Funds</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 258,604	\$ 258,604
Restricted cash	178,435	178,435
Taxes receivables, net	62,300	62,300
Account receivables, net	137,048	137,048
Due from other funds	165,426	165,426
Total assets	<u>\$ 801,813</u>	<u>\$ 732,706</u>
<b>LIABILITIES</b>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 20,916	\$ 20,916
Due to other funds	18,056	18,056
Total liabilities	<u>38,972</u>	<u>38,972</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property taxes receivable	62,300	62,300
Total deferred inflows of resources	<u>62,300</u>	<u>62,300</u>
Fund balances:		
Restricted for:		
Streets - Powell Bill	178,435	178,435
Stabilization by State Statute	243,903	243,903
Unassigned	278,203	278,203
Total fund balances	<u>700,541</u>	<u>700,541</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 801,813</u>	
Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		313,238
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		62,300
Deferred outflows of resources related to pensions are not reported in the funds.		68,904
Deferred inflows of resources related to pensions are not reported in the funds.		(4,645)
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.		
Long term debt		(120,000)
Compensated absences.		(2,786)
Total pension liability.		(29,982)
Net pension liability.		(67,127)
Net position of governmental activities		<u>\$ 920,443</u>



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

	<b>General Fund</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>		
Ad valorem taxes	\$ 204,636	\$ 204,636
Unrestricted intergovernmental	366,785	366,785
Restricted intergovernmental	33,353	33,353
Permits and fees	11,081	11,081
Sales and services	117,418	117,418
Investment earnings	23	23
Total revenues	<u>733,296</u>	<u>733,296</u>
<b>EXPENDITURES</b>		
Current:		
General government	207,116	207,116
Public safety	230,979	230,979
Transportation	69,290	69,290
Cultural and recreational	106,033	106,033
Environmental protection	10,924	10,924
Debt service:		
Principal	20,000	20,000
Interest	5,264	5,264
Total expenditures	<u>649,606</u>	<u>649,606</u>
Excess (deficiency) of revenues over expenditures	<u>83,690</u>	<u>83,690</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Insurance proceeds	3,309	3,309
Total other financing sources and uses	<u>3,309</u>	<u>3,309</u>
Net change in fund balance	86,999	86,999
Fund balances-beginning	613,542	613,542
Fund balances-ending	<u>\$ 700,541</u>	<u>\$ 700,541</u>

**Town of Magnolia, North Carolina**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance to the**  
**Statement of Activities**  
**Governmental Funds**  
**For the Year Ended June 30, 2021**

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

Net changes in fund balances - total governmental funds	\$ 86,999
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.	4,189
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	19,610
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the	
Change in unavailable revenue for tax revenues	5,350
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:	
Pension expense	(30,264)
Compensated absences	1,768
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	
Principal payments on long-term debt	<u>20,000</u>
Total changes in net position of governmental activities	<u>\$ 107,652</u>

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

	General Fund			Variance With
	Original	Final	Actual	Final Budget
			Amounts	Positive
				(Negative)
Revenues:				
Ad valorem taxes	\$ 194,075	\$ 194,925	\$ 204,636	\$ 9,711
Unrestricted intergovernmental	303,400	308,350	366,785	58,435
Restricted intergovernmental	83,650	83,150	33,353	(49,797)
Permit and fees	10,275	13,150	11,081	(2,069)
Sales and services	117,050	110,625	117,418	6,793
Investment earnings	25	25	23	(2)
Total revenues	<u>708,475</u>	<u>710,225</u>	<u>733,296</u>	<u>23,071</u>
Expenditures				
Current:				
General government	235,490	211,245	207,116	4,129
Public safety	228,925	249,895	230,979	18,916
Transportation	142,290	138,825	69,290	69,535
Environmental protection	96,750	106,600	106,033	567
Cultural and recreational	20,020	18,660	10,924	7,736
Debt service:				
Principal	20,000	20,000	20,000	-
Interest	7,500	7,500	5,264	2,236
Total expenditures	<u>750,975</u>	<u>752,725</u>	<u>649,606</u>	<u>103,119</u>
Revenues over (under) expenditures	(42,500)	(42,500)	83,690	126,190
Other financing sources (uses):				
Insurance proceeds	-	-	3,309	3,309
Fund Balance Appropriated	<u>42,500</u>	<u>42,500</u>	<u>-</u>	<u>(42,500)</u>
Total other financing sources (uses)	<u>42,500</u>	<u>42,500</u>	<u>3,309</u>	<u>(39,191)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	86,999	<u>\$ 86,999</u>
Fund Balance, Beginning			613,542	
Fund Balance, Ending			<u>\$ 700,541</u>	

**Town of Magnolia, North Carolina**  
**Statement of Net Position**  
**Proprietary Funds**  
**June 30, 2021**

	<u>Water &amp; Sewer Fund</u>
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ -
Restricted cash	58,571
Due from other funds	18,056
Accounts Receivable (net)	48,175
Total	<u>124,802</u>
Capital assets (net of depreciation)	<u>5,798,432</u>
Total assets	<u>5,923,234</u>
Deferred Outflows of Resources:	
Pension Deferrals - LGERS	<u>28,653</u>
Total deferred outflows of resources	<u>28,653</u>
<b>Liabilities</b>	
Current liabilities:	
Due to other funds	165,426
Compensated absences payable	4,777
Accounts payable and accrued liabilities	8,914
Total current liabilities	<u>179,117</u>
Noncurrent liabilities:	
Liabilities payable from restricted assets:	
Deposits	58,571
Net pension liability	36,145
Total noncurrent liabilities	<u>94,716</u>
Total liabilities	<u>273,833</u>
Deferred Inflows of Resources	
Pension deferrals - LGERS	<u>157</u>
Total deferred inflows of resources	<u>157</u>
<b>Net Position</b>	
Net investment in capital assets	5,798,432
Unrestricted	<u>(120,535)</u>
Net position	<u>\$ 5,677,897</u>

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

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	Water & Sewer Fund
<b>Operating revenues:</b>	
Charges for services	\$ 295,020
Water & Sewer taps	4,498
Other operating revenues	9,710
Total operating revenues	<u>309,228</u>
<b>Operating expenses:</b>	
Salaries and benefits	185,901
Operations	191,019
Depreciation	272,229
Total operating expenses	<u>649,149</u>
Operating income	<u>(339,921)</u>
<b>Nonoperating revenues (expenses):</b>	
Insurance proceeds	<u>5,272</u>
Total nonoperating revenues (expenses)	<u>5,272</u>
Income (loss) before contributions and transfers	<u>(334,649)</u>
Capital contributions	<u>182,164</u>
Change in net position	(152,485)
Net Position - beginning as previously reported	5,814,403
Prior period adjustment	15,979
Net Position - beginning restated	<u>5,830,382</u>
Net Position, ending	<u><u>\$ 5,677,897</u></u>

**Town of Magnolia, North Carolina**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For The Year Ended June 30, 2021**

	Water & Sewer Fund
<b>Cash flows from operating activities:</b>	
Cash received from customers	\$ 309,228
Cash paid for goods and services	(215,662)
Cash paid to employees for services	(185,387)
Net cash provided by operating activities	<u>(91,821)</u>
<b>Cash flows from noncapital financing activities:</b>	
Change in due to/from	48,946
Net cash used by noncapital financing activities	<u>48,946</u>
<b>Cash flows from capital and related financing activities:</b>	
Acquisition and construction of capital assets	(182,164)
Capital contribution	182,164
Restatement	(15,979)
Net cash used by capital and related financing activities	<u>(15,979)</u>
<b>Cash flows from investing activities:</b>	
Interest on investments	<u>-</u>
<b>Net increase(decrease) in cash and cash equivalents</b>	(58,854)
<b>Cash and cash equivalents:</b>	
Beginning of year, July 1	58,854
End of year, June 30	<u><u>\$ -</u></u>
<b>Reconciliation of operating income to net cash provided by operating activities:</b>	
Operating income	\$ (339,921)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation	272,229
Changes in assets, deferred outflows of resources, and liabilities:	
(Increase) decrease in accounts receivable	(2,876)
Increase (decrease) in accrued vacation pay	(3,530)
Increase (decrease) in accounts payable and accrued liabilities	(21,484)
Increase (decrease) in deposits	(283)
Increase (decrease) in net pension liability	13,779
(Increase) decrease in deferred outflows of resources for pensions	(9,892)
Increase (decrease) in deferred inflows of resources for pensions	157
Total adjustments	<u>248,100</u>
Net cash provided by operating activities	<u><u>\$ (91,821)</u></u>

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

**A. Reporting Entity**

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

**B. Basis of Presentation**

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

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

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

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

The Town reports one major governmental fund:

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

The Town reports the following major enterprise funds:

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

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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



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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Grant Projects, Special Revenue Fund and the Enterprise Capital Projects Fund. The Enterprise Fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than 10%. All amendments must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments generally are reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. The NCCMT-Term Portfolio is bond fund, has no rating and is measured at fair value. At June 30, 2021, the Term Portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

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

### 3. Restricted Assets

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

#### Town of Magnolia Restricted Cash

##### Governmental Activities

##### General Fund

	Streets	\$	178,435
Total governmental activities		\$	178,435
Business-type Activities			
Water and Sewer Fund	Customer Deposits	\$	58,571
Total Business-type activities		\$	58,571
Total Restricted Cash		\$	237,006

### 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 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2020. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

### 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. Prepaid Items

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

### 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, \$15,000; infrastructure, \$20,000; furniture and equipment, \$5,000; and vehicles, \$5,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the assets' lives are not capitalized.

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

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

#### 8. Deferred outflows/inflows of resources

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

#### 9. Long-Term Obligations

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

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

#### 10. Compensated Absences

The vacation policy of the Town provides:

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

e. Two weeks (80 hours) annual leave for all employees for each year of service for the 6th through the 15th year of service to the Town.

f. Three weeks (120 hours) annual leave time for all employees for each year of service following the 15th year of service to the Town.

g. Annual leave is calculated from the employee's anniversary date.

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

#### 11. Net Position/Fund Balances

##### Net Position

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

##### Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

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

## 12. Defined Benefit Cost-Sharing Plans

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

## **II. Stewardship, Compliance, and Accountability**

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

#### **1. Noncompliance with North Carolina General Statutes**

None.

#### **2. Contractual Violations**

None.

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

None.

### **C. Excess of Expenditures over Appropriations**

None.

### **III. Detail Notes on All Funds**

#### **A. Assets**

##### **1. Deposits**

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

At June 30, 2021, the Town's deposits had a carrying amount of \$495,610 and a bank balance of \$501,241. The bank balances of the Town were covered by federal depository insurance in the amount of \$250,000. The remaining funds are covered through the pooling method.

##### **2. Receivables - Allowances for Doubtful Accounts**

The Town did not have any allowance as of June 30, 2021.

3. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 25,144	\$ -	\$ -	\$ 25,144
Construction in progress	-	-	-	-
Total capital assets not being depreciated	25,144	-	-	25,144
<b>Capital assets being depreciated:</b>				
Buildings & Other Improvements	529,834	-	-	529,834
Equipment and Vehicles	452,201	28,004	-	480,205
Infrastructure	61,250	-	-	61,250
Total capital assets being depreciated	1,043,285	28,004	-	1,071,289
<b>Less accumulated depreciation for:</b>				
Buildings & Other Improvements	250,589	18,416	-	269,005
Equipment and Vehicles	447,541	5,399	-	452,940
Infrastructure	61,250	-	-	61,250
Total accumulated depreciation	759,380	\$ 23,815	\$ -	783,195
Total capital assets being depreciated, net	283,905			288,094
<b>Governmental activity capital assets, net</b>	<b>\$ 309,049</b>			<b>\$ 313,238</b>

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

General Government	\$ 21,247
Public Safety	2,568
Total Depreciation Expense	<u>\$ 23,815</u>

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-Type activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 13,600	\$ -	\$ -	\$ 13,600
Construction in progress	18,620	182,164	-	200,784
Total capital assets not being depreciated	32,220	182,164	-	214,384
<b>Capital assets being depreciated:</b>				
Plant & Distribution System	9,497,070	-	-	9,497,070
Equipment & Vehicles	366,992	-	-	366,992
Total capital assets being depreciated	9,864,062	-	-	9,864,062
<b>Less accumulated depreciation for:</b>				
Plant & Distribution Systems	3,706,321	258,821	-	3,965,142
Equipment and Vehicles	296,738	18,134	-	314,872
Total accumulated depreciation	4,003,059	\$ 276,955	\$ -	4,280,014
Total capital assets being depreciated, net	5,861,003			5,584,048
<b>Business-type activity capital assets, net</b>	<b>\$ 5,893,223</b>			<b>\$ 5,798,432</b>

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

*Plan Description.* The Town is a participating employer in the statewide Local Governmental Employees' Retirement System (LERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LERS 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 LERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the 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 LERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

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

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

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

*Refunds of Contributions.* Town employees who have terminated service as a contributing member of LERS, 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 LERS.



***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 \$103,272 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 0.00289%, which was .00055% increase from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$51,248. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 13,041	\$ -
Changes of assumptions	7,685	-
Net difference between projected and actual earnings on pension plan investments	14,533	-
Changes in proportion and differences between Town's contributions and proportionate share of contributions	16,437	448
Town's contributions subsequent to the measurement date	30,169	-
Total	<u>\$ 81,865</u>	<u>\$ 448</u>

\$30,169 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension liability in the year ended June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b><u>Year Ended June 30</u></b>	
2022	15,223
2023	18,964
2024	12,760
2025	4,301
2026	-
Thereafter	-
	<u>\$ 51,248</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 position plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 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 return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2019 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

	<b>1 % Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Town's proportionate share of the net pension liability (asset)	\$ 209,528	\$ 103,272	\$ 14,966

*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 (ACFR) for the State of North Carolina.

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

**1. *Plan Description***

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

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

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

**2. *Summary of Significant Account Policies***

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

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

**3. *Actuarial Assumptions***

The entry age actuarial cost method was used in the December 31, 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	2.5 percent
Salary increases	3.25 to 7.75 percent, including inflation and productivity factor
Discount rate	1.93 percent

#### 4. Contributions

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

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

At June 30, 2021, the Town reported a total pension liability of \$29,982. 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 \$3,728.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 4,918	\$ 4,031
Changes of assumptions and other inputs	10,774	323
Benefit payments and administrative expenses subsequent to the measurement date.	-	-
Total	<u>\$ 15,692</u>	<u>\$ 4,354</u>

\$0 paid as benefits came due and \$0 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources and will be recognized as a decrease of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b><u>Year Ended June 30</u></b>	
2022	\$ 865
2023	865
2024	862
2025	819
2026	419
Thereafter	<u>524</u>
	<u>\$ 4,354</u>

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

	<b>1 % Decrease (0.93%)</b>	<b>Discount Rate (1.93%)</b>	<b>1% Increase (2.93%)</b>
Town's proportionate share of the net pension liability (asset)	\$ 32,790	\$ 29,982	\$ 27,358

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

	<b>2021</b>
Beginning balance	\$ 18,404
Service Cost	1,578
Interest on the total pension liability	600
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(1,970)
Changes of assumptions or other inputs	11,370
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	<u>\$ 29,982</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.

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

	<b>LGERS</b>		<b>LEOSSA</b>		<b>Total</b>
Pension Expense	\$ 40,824	\$	3,728	\$	44,552
Pension Liability	103,272		29,982		133,254
Proportionate share of the net pension liability	0.0029%		n/a		

**Deferred of Outflows of Resources**

Differences between expected and actual experience	13,041	4,918	17,959
Changes of assumptions	7,685	10,774	18,459
Net difference between projected and actual earnings on plan investments	14,533	-	14,533
Changes in proportion and differences between contributions and proportionate share of contributions	16,437	-	16,437
Benefit payments and administrative costs paid subsequent to the measurement date	30,169	-	30,169

**Deferred of Inflows of Resources**

Differences between expected and actual experience	-	4,031	4,031
Changes of assumptions	-	323	323
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	448	-	448

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

*Funding Policy.* Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2021 were \$3,869, which consisted of the entire amount being from the law enforcement officers.

2. Other Employment Benefits

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

3. Deferred Outflows and Inflows of Resources

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

<u>Source</u>	<u>Amount</u>
Differences between expected and actual experience	\$ 17,959
Changes of assumptions	18,459
Net difference between projected and actual earnings on pension plan investments	14,533
Changes in proportion and differences between Town's contributions and proportionate share of contributions	16,437
Town's contributions subsequent to the measurement date	<u>30,169</u>
Total	<u>\$ 97,557</u>

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

	Statement of Net Position	General Fund Balance Sheet
Pension deferrals	\$ 4,802	\$ -
Taxes Receivable	-	62,300
	<u>\$ 4,802</u>	<u>\$ 62,300</u>

#### 4. Risk Management

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

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

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

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

#### 5. Claims, Judgements, and Contingent Liabilities

At June 30, 2021, there were no lawsuits against the Town that materially impact it's financial statements.

#### 6. Long Term Obligations

##### a. Installment Purchases

On November 4, 2016 the Town entered into a \$200,000 direct placement contract to finance the construction of a municipal building. The contract will be paid in annual principal installments of \$20,000 interest at 3.75% annum for 10 years. At year end \$162,789 had been drawn down on the \$200,000 loan. The balance at June 30, 2021 was \$120,000.

The future minimum payments of the installment purchases as of June 30, 2021 are as follows:

Year Ending June 30	Governmental Activities	
	Principal	Interest
2022	\$ 20,000	\$ 4,500
2023	20,000	3,750
2024	20,000	3,000
2025	20,000	2,250
2026	20,000	1,500
2027	20,000	750
Total	<u>\$ 120,000</u>	<u>\$ 15,750</u>

B. Changes in General Long-Term Liabilities

During the year ended June 30, 2021 the following changes occurred in installment purchase in the:

	Balance 07/01/20	Increases	Decreases	Balance 06/30/21	Current Portion
Governmental activities:					
Direct Placement Installment purchases	\$ 140,000	\$ -	\$ 20,000	\$ 120,000	\$ 20,000
Compensated absences	4,554	4,265	6,033	2,786	2,786
Total Pension liability (LEOSSA)	18,404	11,578	-	29,982	-
Net Pension liability (LGERS)	41,538	25,589	-	67,127	-
Governmental activity long-term liabilities	<u>\$ 167,285</u>	<u>\$ 41,432</u>	<u>\$ 26,033</u>	<u>\$ 182,684</u>	<u>\$ 22,786</u>
Business-type activities:					
Compensated absences	\$ 8,307	\$ 3,690	\$ 7,220	\$ 4,777	\$ 4,777
Net Pension liability (LGERS)	22,366	13,779	-	36,145	-
Business-type activity long-term liabilities	<u>\$ 46,652</u>	<u>\$ 17,469</u>	<u>\$ 7,220</u>	<u>\$ 56,901</u>	<u>\$ 4,777</u>

State statute provides for a legal debt limit of eight percent of the Town's appraised valuation. The Town's legal debt margin as of June 30, 2021 amounts to \$2,303,152.

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

C. Interfund Balances and Activity

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Water Fund	\$ 147,370

To supplement other funding sources.

D. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$ 313,238	\$ 5,798,432
less: long-term debt	(120,000)	-
Net investment in capital asset	<u>\$ 193,238</u>	<u>\$ 5,798,432</u>



E. Fund Balance

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

<b>Total fund balance - General Fund</b>	<b>\$ 700,541</b>
<b>Less:</b>	
<b>Stabilization by State Statute</b>	243,903
<b>Streets - Powell Bill</b>	178,435
<b>Remaining Fund Balance</b>	<b>\$ 278,203</b>

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

V. Significant Effects of Subsequent Events

There are no subsequent events that would have a material affect on the financial statements. Subsequent events have been analyzed through November 29, 2021 that the financial statements were available to be issued.

VI. Prior Period Adjustments

A prior period adjustment has been made to the Government-Wide Financial Statements. This restatement resulted from debt being understated in Governmental funds and overstated in Enterprise funds in the prior fiscal year in the amounts of \$37,211 and \$15,979, respectively. More information regarding this restatement can be found in the Schedule of Findings and Responses section of these Financial Statements.

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

**Local Government Employees' Retirement System**

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Town's proportion of the net pension liability (asset) (%)	0.0023%	0.0023%	0.0023%	0.0025%	0.0033%	0.0037%	0.0039%	0.0039%
Town's proportion of the net pension liability (asset) (\$)	\$ 103,272	\$ 63,904	\$ 53,378	\$ 37,582	\$ 70,037	\$ 16,381	\$ (19,697)	\$ (19,697)
Town's covered-employee payroll	\$ 252,573	\$ 226,849	\$ 216,633	\$ 217,754	\$ 238,007	#####	#####	\$ 234,306
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	40.89%	28.17%	24.64%	17.26%	29.43%	7.07%	20.06%	20.06%
Plan fiduciary net position as a percentage of the total pension liability**	88.61%	91.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

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

**Local Government Employees' Retirement System**

	<b><u>2021</u></b>	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2016</u></b>	<b><u>2015</u></b>	<b><u>2014</u></b>
Contractually required contribution	\$ 30,169	\$ 23,196	\$ 18,094	\$ 16,682	\$ 16,188	\$ 16,234	\$ 16,720	\$ 16,673
Contributions in relation to the contractually required contribution	30,169	23,196	18,094	16,682	16,188	16,234	16,720	16,673
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 284,382	\$ 252,573	\$ 226,849	\$ 216,633	\$ 217,754	\$ 238,007	\$ 231,753	\$ 236,902
Contributions as a percentage of covered- employee payroll	10.61%	9.18%	7.98%	7.70%	7.43%	6.82%	7.21%	7.04%

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

	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 18,404	\$ 9,165	\$ 12,154	\$ 10,457	\$ 8,760
Service Cost	1,578	1,658	1,067	1,749	1,749
Interest on the total pension liability	600	334	271	313	313
Changes of benefit terms	-	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(1,970)	6640	(4,025)	-	-
Changes of assumptions or other inputs	11370	607	(302)	(365)	(365)
Benefit payments	-	-	-	-	-
Other changes	-	-	-	-	-
Ending balance of the total pension liability	<u>\$ 29,982</u>	<u>\$ 18,404</u>	<u>\$ 9,165</u>	<u>\$ 12,154</u>	<u>\$ 10,457</u>

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

**Town of Magnolia, North Carolina**  
**Schedule of Total Pension Liability as a Percentage of Covered Payroll**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2021**

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 29,982	\$ 18,404	\$ 9,165	\$ 12,154	\$ 10,457
Covered payroll	77,772	85,821	47,248	57,988	74,447
Total pension liability as a percentage of covered payroll	38.55%	21.44%	19.40%	20.96%	14.04%

Notes to the schedules:

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

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

	2021		Variance
	Budget	Actual	Positive (Negative)
<b>Revenues:</b>			
Ad valorem taxes:			
Taxes		\$ 200,746	
Penalties and interest		3,890	
Total ad valorem taxes	\$ 194,925	204,636	\$ 9,711
Unrestricted intergovernmental:			
Utilities sales tax		32,541	
Local option sales taxes		325,563	
Beer and wine tax		2,710	
Motor fuel tax		4,393	
Refunds		1,578	
Total unrestricted intergovernmental	308,350	366,785	58,435
Restricted intergovernmental:			
Solid waste disposal tax		733	
Powell Bill allocation		32,620	
Total restricted intergovernmental	83,150	33,353	(49,797)
Permits and fees:			
Zoning Permits		630	
Police fees		1,333	
Rents and concessions		9,118	
Total permits and fees	13,150	11,081	(2,069)
Sales and services:			
Contributions		2,098	
Refuse		115,118	
Miscellaneous		202	
Total sales and services	110,625	117,418	6,793
Investment earnings	25	23	(2)
Total Revenues	710,225	733,296	23,071

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

	2021		Variance
	Budget	Actual	Positive (Negative)
<b>Expenditures:</b>			
General government:			
Administration:			
Salaries and benefits		99,775	
Operating expense		106,982	
Economic development		359	
Total general government	211,245	207,116	4,129
Public safety:			
Police:			
Salaries & benefits		161,769	
Operating expense		21,067	
Capital Outlay		28,004	
Total police	214,645	210,840	3,805
Fire:			
Operating expense		20,139	
Total fire	35,250	20,139	15,111
Total public safety	249,895	230,979	18,916
Transportation :			
Salaries & benefits		42,041	
Operating expense		22,333	
Powell bill		4,916	
Total transportation	138,825	69,290	69,535
Environmental protection:			
Salaries & benefits		21,260	
Operating expense		4,821	
Contracted services		79,952	
Total environmental protection	106,600	106,033	567

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

	2021		Variance
	Budget	Actual	Positive (Negative)
Cultural/Recreation:			
Salaries & benefits		2,535	
Operating expense		8,389	
Total cultural/recreation	18,660	10,924	7,736
Debt service:			
Principle retirement		20,000	
Interest and fees		5,264	
Total debt service	27,500	25,264	2,236
Total Expenditures	752,725	649,606	103,119
Revenues over (under) expenditures	(42,500)	83,690	126,190
Other financing sources (uses):			
Insurance proceeds	-	3,309	3,309
Fund Balance Appropriated	42,500	-	(42,500)
Total	42,500	3,309	(39,191)
Net Change in Fund Balance	\$ -	86,999	\$ 86,999
Fund balances, beginning		613,542	
Fund balances, ending		\$ 700,541	



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

	2021		Variance
	Budget	Actual	Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services		\$ 295,020	
Water taps		4,498	
Other operating revenues		9,710	
Total operating revenues	\$ 409,000	309,228	\$ (99,772)
Nonoperating revenues:			
Insurance proceeds		5,272	
Total Non-Operating Revenues	-	5,272	5,272
Total revenues	409,000	314,500	(94,500)
Expenditures:			
Water Operations:			
Salaries and benefits		185,387	
Water distribution		28,773	
Utilities		51,930	
Contracted services		13,895	
Maintenance and repairs		76,612	
Departmental supplies and materials		19,809	
Total expenditures	409,000	376,406	32,594
Revenues and other sources over expenditures and other uses	\$ 818,000	\$ (61,906)	\$ (61,906)
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>			
Revenues over expenditures		\$ (61,906)	
Reconciling items:			
Depreciation		(272,229)	
Capital contribution		182,164	
(Increase) decrease in accrued vacation pay		3,530	
(Increase) decrease in net pension liability		(13,779)	
Increase (decrease) in deferred outflows of resources for pensions		9,892	
(Increase) decrease in deferred inflows of resources for pensions		(157)	
Total reconciling items		(90,579)	
Change in Net Position		\$ (152,485)	

**Town of Magnolia, North Carolina**  
**Sewer CDBG Project**  
**Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)**  
**From Inception and for the Fiscal Year Ended June 30, 2021**

	Project Author - ization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues - Sewer Project:					
Restricted intergovernmental:					
CDBG Grant	\$ 1,398,000	\$ -	\$ 182,164	\$ 182,164	\$ (1,215,836)
Local Funds	8,850	-	-	-	(8,850)
Total revenues	<u>1,406,850</u>	<u>-</u>	<u>182,164</u>	<u>182,164</u>	<u>(1,224,686)</u>
Expenditures - Sewer Project:					
Construction	1,269,150	-	92,644	92,644	1,176,506
Administration	137,700	18,620	89,520	108,140	29,560
Total expenditures	<u>1,406,850</u>	<u>18,620</u>	<u>182,164</u>	<u>200,784</u>	<u>1,206,066</u>
Revenues over (under) expenditures	<u>-</u>	<u>(18,620)</u>	<u>-</u>	<u>(18,620)</u>	<u>(18,620)</u>
Other financing sources (uses):					
Transfers from (to) other funds	-	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (18,620)</u>	<u>-</u>	<u>\$ (18,620)</u>	<u>\$ (18,620)</u>
Fund balance, beginning			(18,620)		
Fund balance, ending			<u>\$ (18,620)</u>		

**Town of Magnolia, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2021**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2019</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2021</u>
2020 - 2021	\$ -	\$ 199,910	\$ 183,454	\$ 16,456
2019 - 2020	22,043	-	8,717	13,326
2018 - 2019	13,459	-	2,788	10,671
2017 - 2018	9,057	-	1,203	7,854
2016 - 2017	5,562	-	811	4,751
2015 - 2016	3,782	-	314	3,468
2014 - 2015	3,101	-	541	2,560
2013 - 2014	1,970	-	223	1,747
2012 - 2013	1,467	-	-	1,467
2011 - 2012	2,837	-	2,837	-
	<u>\$ 63,278</u>	<u>\$ 199,910</u>	<u>\$ 200,888</u>	<u>\$ 62,300</u>
Ad valorem taxes receivable - net				<u>\$ 62,300</u>

Reconcilement with revenues:

Ad valorem taxes - General Fund	\$ 204,636
Reconciling items:	
Interest & Penalties collected	(3,890)
Releases and write offs	142
Subtotal	<u>(3,748)</u>
Total collections and credits	<u>\$ 200,888</u>

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

				Total Levy	
	Town - Wide			Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Property Valuation	Rate	Total Levy		
Original levy:					
Property taxed at current year's rate	\$ 30,289,394	0.66	\$ 199,910	\$ 161,794	\$ 38,116
Penalties	-		-	-	-
Total	<u>30,289,394</u>		<u>199,910</u>	<u>161,794</u>	<u>38,116</u>
Total property valuation	<u><u>\$ 30,289,394</u></u>				
Net levy			199,910	161,794	38,116
Uncollected taxes at June 30, 2021			<u>16,456</u>	<u>16,456</u>	<u>-</u>
Current year's taxes collected			<u><u>\$ 183,454</u></u>	<u><u>\$ 145,338</u></u>	<u><u>\$ 38,116</u></u>
Current levy collection percentage			<u><u>91.77%</u></u>	<u><u>89.83%</u></u>	<u><u>100.00%</u></u>



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

**Independent Auditor's Report**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Magnolia for the year ended June 30, 2021, and the related notes to the financial statement, which collectively comprises the Town of Magnolia's basic financial statements, and have issued our report thereon dated November 29, 2021.

**Internal Control Over Financial Reporting**

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

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

Our consideration of the internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies. Listed as items 2021-001, 2021-002, and 2021-003.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Magnolia's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

#### Town of Magnolia's Response to Findings

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

#### Purpose of this Report

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

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

Wilmington, North Carolina

November 29, 2021

**Town of Magnolia, North Carolina  
Schedule of Findings and Responses  
For the Fiscal Year Ended June 30, 2021**

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Section I. Summary of Auditors' Results

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Financial Statements

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

Internal control over financial reporting:

Material weaknesses identified? ☐ Yes ☒ No

Significant Deficiency(s) identified? ☒ Yes ☐ No

Noncompliance material to financial statements noted? ☐ Yes ☒ No

**Town of Magnolia, North Carolina  
Schedule of Findings and Responses  
For the Fiscal Year Ended June 30, 2021**

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Section II. Financial Statement Findings

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**SIGNIFICANT DEFICIENCY**

**2021-001                    Segregation of Duties**

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

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

Effect: Transactions could be mishandled.

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

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2020-001.

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

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

**SIGNIFICANT DEFICIENCY**

**2021-002                    Failure to Perform Reconciliations of Significant Accounts**

Criteria: Cash was not reconciled to the general ledger accounts in a timely or accurate manner.

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

Effect: Information obtained from general ledger could be incorrect.

Cause: Inadequate training with software.

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2020-003.

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

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

**SIGNIFICANT DEFICIENCY**

**2021-003                    Prior Period Adjustment**

Criteria: The June 30, 2021, beginning Net Position was restated for incorrect long-term debt balances reported as of June 30, 2020.

Condition: Long-term debt was understated by \$37,211 in Governmental funds and overstated by \$15,979 in Proprietary funds.

Context: Long-term debt was misstated on prior year audits which also misstated Net Position balances.

Effect: Incorrect balances in long-term debt and net position could effect management's decision making.

Identification of a repeat finding: Not a repeat findings.

Cause: The Town does not have proper safeguards and internal controls in place for proper review of debt balances.

Recommendation: Finance officer and staff should develop safeguards and internal controls for proper oversight of balances to prevent future misstatements.

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





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

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Section II - Financial Statement Findings

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2021 - 001

Name of Contact Person:	Gwendolyn Vann, Mayor
Corrective Action:	The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The governing board will become more involved in providing some of these controls.
Proposed Completion Date:	The Board will implement the above procedure immediately.

2021 - 002

Name of Contact Person:	Gwendolyn Vann, Mayor
Corrective Action:	Corrective Action: The Town has reached out to the software company for training on the accounting software to better utilize the systems full compatability. The Town has also reached out to outside resources for templates and best practices in performing monthly reconciliations.
Proposed Completion Date:	The Board will implement the above procedure immediately.

2021 - 003

Name of Contact Person:	Gwendolyn Vann, Mayor
Corrective Action:	Corrective Action: Town Finance department will develop safeguards and control to ensure balances are accurately stated.
Proposed Completion Date:	The Board will implement the above procedure immediately.

**Town of Magnolia, North Carolina  
Summary Schedule of Prior Audit Findings  
For the Fiscal Year Ended June 30, 2021**

**Findings: 2020-001**  
Status:     Uncorrected.

**Findings: 2020-002**  
Status:     Corrected.

**Findings: 2020-003**  
Status:     Uncorrected.

**Findings: 2020-004**  
Status:     Corrected.