

Town of Haw River
Financial Statements
June 30, 2018

**Town of Haw River
North Carolina**

June 30, 2018

Town Council Members

Buddy Boggs, Mayor
H. Lee Lovette, Mayor Pro-Tem
Jeff Fogleman
Steve Lineberry
Kelly Allen

Administrative and Financial Staff

Sean Tencer, Town Manager/Finance Officer
Lesley Gonzalez, Assistant Finance Officer/Town Clerk

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Financial Section

Winston, Williams, Creech, Evans, & Company, LLP

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America Counts on CPAs

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Independent Auditor's Report

To the Honorable Mayor and Town Council
Town of Haw River, 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 Haw River, North Carolina, as of and for the year ended June 30, 2018, 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 of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order 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

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made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, based upon 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 Haw River as of June 30, 2018, 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.

Change in Accounting Principle

As discussed in Note VII to the financial statements, in 2018 the Town adopted new accounting guidance, GASB 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, the Healthcare Benefits' Plan Schedule of Changes in the Total OPEB Liability and Related Ratios, the Local Government Employees' Retirement Systems' Schedules of the Proportionate Share of the Net Pension Liability and Contributions, and the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as 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 inquires 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 Town of Haw River's basic financial statements. The individual fund financial 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 individual fund financial statements, budgetary schedules, and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records

used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures; including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund financial statements, budgetary schedules, 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 June 26, 2019 on our consideration of the Town of Haw River's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Haw River's internal control over financial reporting and compliance.

Winston, Williams, Creech, Evans & Company, LLP

Winston, Williams, Creech, Evans & Company, LLP
Certified Public Accountants
Oxford, North Carolina
June 26, 2019

Management's Discussion and Analysis

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

As management of the Town of Haw River, North Carolina (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Haw River for the fiscal year ended June 30, 2018. 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 Haw River *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$11,602,591 (*net position*).
- The government's total net position *increased* by \$4,087,305, due to an *increase* in the governmental activities net position of \$4,243,698 and *decrease* in the business-type activities net position of \$156,393.
- As of the close of the current fiscal year, the Town of Haw River's governmental funds reported combined ending fund balances of \$6,406,865 with a net increase of \$4,757,119 in fund balance. Approximately 91.21 percent of this total amount, or \$5,843,382, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$463,183, or 20.21 percent of total general fund expenditures for the fiscal year.
- The Town of Haw River's total debt decreased by \$115,225 (7.8%) during the current fiscal year. The key factor in this decrease were principal payments made in the amount of \$115,225.

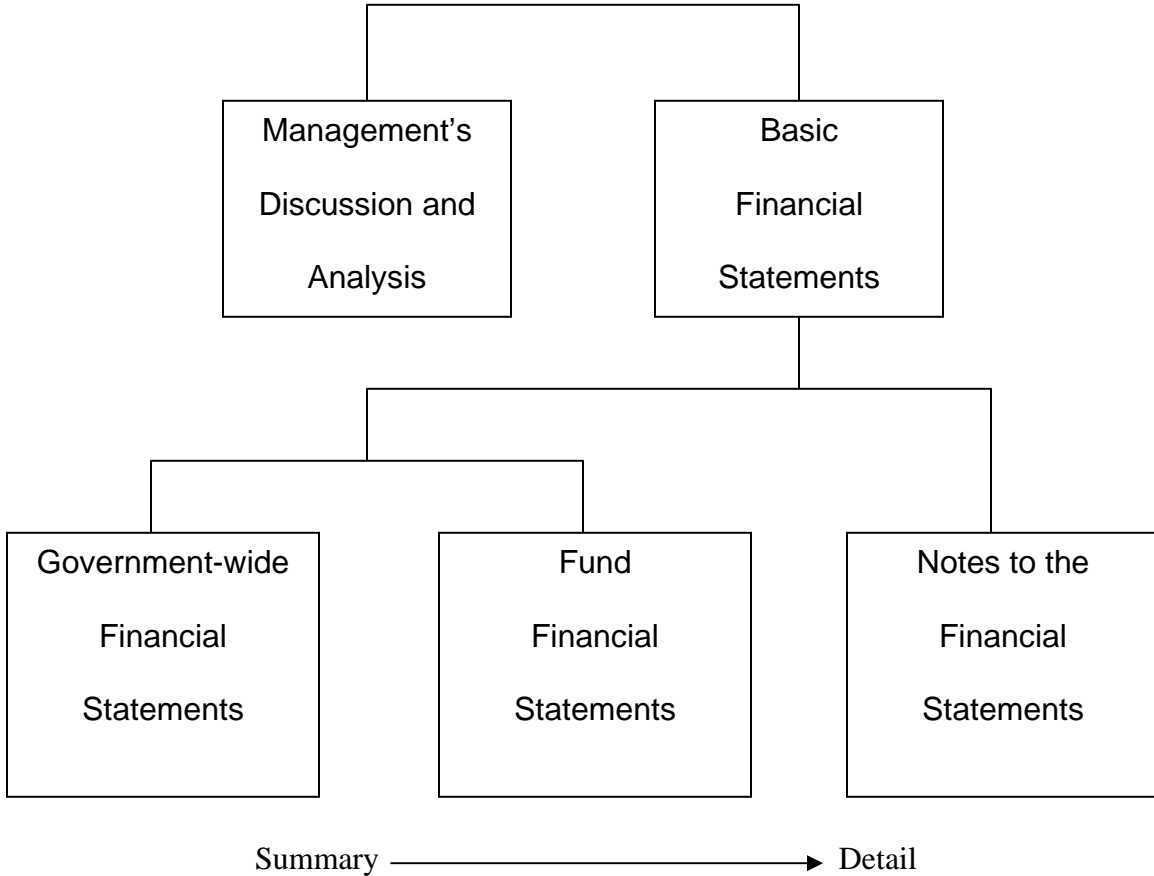
Overview of the Financial Statements

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

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

Government-wide Financial Statements

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

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

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

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

Fund Financial Statements

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

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

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

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

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 29 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain supplementary information concerning the Town of Haw River's progress in funding its obligation to provide pension benefits to its law enforcement employees. Additionally, this report includes certain supplementary information concerning the Town of Haw River's progress in funding its obligation to provide retirement healthcare benefits to its employees. Required supplementary information can be found beginning on page 55 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.

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

Government-Wide Financial Analysis

Town of Haw River's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Current and other assets	\$ 6,482,534	\$ 1,693,814	\$ 1,546,206	\$ 1,509,147	\$ 8,028,740	\$ 3,202,961
Capital assets	1,926,918	1,918,424	4,552,590	4,658,714	6,479,508	6,577,138
Deferred outflows of resources	278,361	211,209	25,136	48,407	303,497	259,616
Total assets and deferred outflows of resources	8,687,813	3,823,447	6,123,932	6,216,268	14,811,745	10,039,715
Long-term liabilities outstanding	176,691	235,724	1,124,578	1,159,727	1,301,269	1,395,451
Net pension liability	193,937	221,742	31,860	55,435	225,797	277,177
Total pension liability	320,959	298,424	-	-	320,959	298,424
Total OPEB liability	873,597	213,300	174,761	57,913	1,048,358	271,213
Other liabilities	149,289	153,939	102,255	100,960	251,544	254,899
Deferred inflows of resources	51,900	22,576	9,327	4,689	61,227	27,265
Total liabilities and deferred inflows of resources	1,766,373	1,145,705	1,442,781	1,378,724	3,209,154	2,524,429
Net position:						
Net investment in capital assets related debt	1,711,377	1,622,921	3,404,588	3,475,449	5,115,965	5,098,370
Restricted	5,843,382	949,066	33,295	33,295	5,876,677	982,361
Unrestricted	(633,319)	105,755	1,243,268	1,328,800	609,949	1,434,555
Total net position	\$ 6,921,440	\$ 2,677,742	\$ 4,681,151	\$ 4,837,544	\$11,602,591	\$ 7,515,286

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of the Town of Haw River exceeded liabilities by \$11,602,591 as of June 30, 2018. The Town's net position increased by \$4,848,972 for the fiscal year ended June 30, 2018. However, a large portion (44.09%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Haw River uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Haw River's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$5,876,677, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$609,949 is unrestricted.

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

- Restatement of \$640,905 was required in order to book the liability of the OPEB as required by GASB 75.
- Continued diligence in the collection of property taxes by maintaining a positive tax collection percentage of 98.72%, which is healthier compared to the statewide average of 98.07% for similar-sized municipalities.

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

**Town of Haw River's Changes in Net Position
Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues:						
Program revenues:						
Charges for services	\$ 115,076	\$ 460,038	\$ 1,586,333	\$ 1,601,007	\$ 1,701,409	\$ 1,989,940
Operating grants and contributions	92,841	27,434	-	-	92,841	8,194
Capital grants and contributions	5,069,121	141,374	-	361,417	5,069,121	297,626
General revenues:						
Property taxes	704,498	733,961	-	-	704,498	710,334
Other taxes	273,161	78	-	-	273,161	7,791
Grants and contributions not restricted to specific programs	759,468	728,184	-	-	759,468	704,902
Other	14,436	6,811	-	-	14,436	15,131
Investment earnings	17,175	5,707	6,519	2,244	23,694	4,413
Total revenues	7,045,776	2,103,587	1,592,852	1,964,668	8,638,628	3,738,331
Expenses:						
General government	503,239	389,888	-	-	503,239	389,888
Public safety	1,155,240	1,065,273	-	-	1,155,240	1,065,273
Transportation	181,684	375,780	-	-	181,684	375,780
Environmental protection	122,993	126,216	-	-	122,993	126,216
Culture and recreation	191,873	172,488	-	-	191,873	172,488
Interest on long-term debt	6,144	6,038	-	-	6,144	6,038
Water and sewer	-	-	1,615,987	1,564,361	1,615,987	1,564,361
Stormwater	-	-	12,496	11,887	12,496	11,887
Total expenses	2,161,173	2,135,683	1,628,483	1,576,248	3,789,656	3,711,931
Increase (decrease) in net position before transfers	4,884,603	(32,096)	(35,631)	388,420	4,848,972	356,324
Restatement	(640,905)	(244,373)	(120,762)	-	(761,667)	(244,373)
Increase (decrease) in net position	4,243,698	(276,469)	(156,393)	388,420	4,087,305	111,951
Net position, July 1	2,677,742	2,954,211	4,837,544	4,449,124	7,515,286	7,403,335
Net position, June 30	\$ 6,921,440	\$ 2,677,742	\$ 4,681,151	\$ 4,837,544	\$ 11,602,591	\$ 7,515,286

Governmental activities. Governmental activities increased the Town's net position by \$4,243,698, thereby accounting for the increase in net position of the Town of Haw River. Key elements of this increase are as follows:

- Capital grants received in the amount of \$5,000,000 for an economic development project.

Business-type activities: Business-type activities decreased the Town's net position by \$156,393 accounting for some of the decrease in net position of the Town of Haw River. Key elements of this decrease are as follows:

- Grant funding decreased by \$361,317 and expenditures increased during 17-18.

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Haw River. At the end of the current fiscal year, Town of Haw River's fund balance available in the General Fund was \$1,173,349, while total fund balance reached \$1,406,618. The Town currently has an available fund balance of 51.19 percent of total General Fund expenditures, while total fund balance represents 61.36 percent of that same amount.

At June 30, 2018, the governmental funds of Town of Haw River reported a combined fund balance of \$6,406,865 with a net increase in fund balance of \$4,757,119.

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.

Revenues were lower than budgeted amounts primarily due to a combination of lower than anticipated utilities franchise tax and sales and use tax as well as an unused budgeted fund balance appropriation. Expenditures were lower than budgeted amounts due to management's efforts to reduce departmental spending in order to mitigate the effects of reduced revenues on the budget.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,129,369, and those for the Stormwater Fund amounted to \$113,899. Net position before restatement decreased in the Water and Sewer Fund by \$46,355 and net position in the Stormwater Fund increased by \$10,724 in the current fiscal year. The change in net position of the Water and Sewer Fund is due to higher expenses in the fund and less funding related to projects and grants. The change in net position of the Stormwater Fund is a result of operating revenues exceeding related expenses for the current operation of this program.

Capital Asset and Debt Administration

Capital assets. The Town of Haw River's investment in capital assets for its governmental and business-type activities as of June 30, 2018, totals \$6,479,508 (net of

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities and vehicles.

Major capital asset transactions during the year include the following:

- Bathroom Renovations – \$24,000.
- John Deere Utility Tractor - \$84,833.
- 4 vehicles - \$104,264.
- John Deere Mower - \$6,415.
- Camera systems - \$20,119.

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

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 167,968	\$ 167,968	\$ 1,040	\$ 1,040	\$ 169,008	\$ 169,008
Construction in progress	-	-	33,486	-	33,486	-
Buildings	256,329	253,042	-	-	256,329	253,042
Infrastructure	743,147	780,517	-	-	743,147	780,517
Equipment	293,654	249,202	-	-	293,654	249,202
Vehicles	465,820	467,695	-	1,072	465,820	468,767
Plant and distribution systems	-	-	4,518,064	4,656,602	4,518,064	4,656,602
Total	\$1,926,918	\$ 1,918,424	\$ 4,552,590	\$ 4,658,714	\$ 6,479,508	\$ 6,577,138

Additional information on the Town's capital assets can be found in note III.A.4 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2018, the Town had total installment purchase obligations outstanding of \$638,543.

**General Obligation and Bonds
Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Installment purchase obligations	\$ 215,541	\$ 295,503	\$ 423,002	\$ 445,265	\$ 638,543	\$ 740,768
Revenue Bonds	-	-	725,000	738,000	725,000	738,000
Total	\$ 215,541	\$ 295,503	\$ 1,148,002	\$ 1,183,265	\$ 1,363,543	\$ 1,478,768

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

Town of Haw River's Outstanding Debt

The Town's total debt decreased by \$115,225 during the past fiscal year due to payment of principal on installment purchases in the general fund and revenue bonds and installment purchases in the water/sewer fund by the Town.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within the government's boundaries. The legal debt margin for the Town of Haw River is \$10,334,731.

Additional information regarding the Town of Haw River's long-term debt can be found in note II.B.6 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the current economic conditions faced by the Town.

- Due to strong private economic factors, we expect marginal increase in sales tax revenues. Small growth projections are predicted again for the coming year.
- The Town does expect a minimal increase by the City of Burlington. The Town is in the process of building a new pump station (Lang Street Pump Station) to accommodate residential and commercial expansion on the northwest (Holt Road, New Hanover Road, and Church Street) portion of the town.
- The Town continues to have increases and plan changes driven by the market that adversely affect the Town and its employees. The Town's MERP program reduces consequences to employees.
- The Town is pleased with the stabilization on its earnings on its investments, but it is our hope that slow hikes to the Federal interest rate will increase Town investment revenues in the coming fiscal year. We have had to continually address increases in operational expenses without corresponding increases in operational revenues.
- The Town's workforce has gotten much younger due to several older long term employees retiring. This has helped to reduce current salary cost but has had a negative impact on the OPEB cost associated with retirees and their benefits.
- The Town will be continuing it's focusing in the coming year on re-development of Granite Mill property located off Main Street. There has been progress as the Granite Mill ownership group has identified a developer that is proposing a residential/retail project for that facility. Construction will start mid-year of fiscal year 18-19.

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2018**

- The Newlin Industrial Park project, as a 200-acre industrial site is currently being promoted by the NC Department of Commerce, the Alamance County Chamber of Commerce, and the Town. The dedication of this site will give the Town the ability to increase its tax base through new industrial development that will provide needed funds and jobs for the sustainability of the Town of Haw River. Progress is anticipated for the project during fiscal year 2019-2020.

Budget Highlights for the Fiscal Year Ending June 30, 2019

Governmental Activities: There are several challenges faced by management when preparing for the fiscal year ending June 30, 2019. Due to higher call volumes, we will need to face the need for more staff, which will reduce governmental funds for other departments. We anticipate experiencing increases in health insurance, worker's compensation insurance, property and liability insurance, and operational cost. We foresee an increase in Sales & Use Tax that should help offset some of the increases. We are hopeful to hold our ad-valorem tax rate at .48/100-dollar evaluation.

Business – type Activities: We anticipate water and sewer rates in the Town to increase slightly due to an increase of rates by the City of Burlington. The future budget allows for maintenance and repair costs. In the coming year, we will continue the Lang Street Pump Station replacement project.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager, Town of Haw River, 403 East Main Street, Haw River, NC 27258.

Basic Financial Statements

Government-Wide Financial Statements

Town of Haw River, North Carolina
Statement of Net Position
June 30, 2018

	Primary Government		Total
	Governmental Activities	Business-type Activities	
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 614,775	\$ 1,355,244	\$ 1,970,019
Taxes receivable (net)	23,375	-	23,375
Accrued interest receivable on taxes	1,002	-	1,002
Accounts receivable (net)	6,905	103,787	110,692
Due from other governments	226,364	-	226,364
Restricted cash and cash equivalents	5,610,113	87,175	5,697,288
Total current assets	<u>6,482,534</u>	<u>1,546,206</u>	<u>8,028,740</u>
Non-current assets:			
Capital assets:			
Land, non-depreciable improvements and construction in progress	167,968	34,526	202,494
Other capital assets, net of depreciation	1,758,950	4,518,064	6,277,014
Total capital assets	<u>1,926,918</u>	<u>4,552,590</u>	<u>6,479,508</u>
Total assets	<u>8,409,452</u>	<u>6,098,796</u>	<u>14,508,248</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension Deferrals	209,207	25,136	234,343
OPEB Deferrals	69,154	-	69,154
Total deferred outflows of resources	<u>278,361</u>	<u>25,136</u>	<u>303,497</u>
LIABILITIES			
Current liabilities:			
Accounts payable	51,292	7,597	58,889
Accrued interest payable	1,660	1,635	3,295
Customer deposits	-	53,880	53,880
Compensated absences	14,372	3,880	18,252
Revenue bonds-current	-	13,000	13,000
Installment obligations-current	81,965	22,263	104,228
Total current liabilities	<u>149,289</u>	<u>102,255</u>	<u>251,544</u>
Long-term liabilities:			
Compensated absences	43,115	11,839	54,954
Installment obligations-noncurrent	133,576	400,739	534,315
Revenue bonds-noncurrent	-	712,000	712,000
Net pension liability-LGERS	193,937	31,860	225,797
Total pension liability-LEOSSA	320,959	-	320,959
Total OPEB liability	873,597	174,761	1,048,358
Total long-term liabilities	<u>1,565,184</u>	<u>1,331,199</u>	<u>2,896,383</u>
Total liabilities	<u>1,714,473</u>	<u>1,433,454</u>	<u>3,147,927</u>
DEFERRED INFLOWS OF RESOURCES			
Pension Deferrals	16,959	2,337	19,296
OPEB Deferrals	34,941	6,990	41,931
Total deferred inflows of resources	<u>51,900</u>	<u>9,327</u>	<u>61,227</u>
NET POSITION			
Net Investment in capital assets	1,711,377	3,404,588	5,115,965
Restricted for:			
Transportation	373,139	-	373,139
Public safety	177,410	-	177,410
Cultural and recreation	59,317	-	59,317
Economic development	5,000,247	-	5,000,247
Stabilization by State Statute	233,269	-	233,269
USDA	-	33,295	33,295
Unrestricted	(633,319)	1,243,268	609,949
Total net position	<u>\$ 6,921,440</u>	<u>\$ 4,681,151</u>	<u>\$ 11,602,591</u>

The accompanying notes are an integral part of the financial statements.

Town of Haw River, North Carolina
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental	Business-type	Total
Primary government:							
Governmental Activities:							
General government	\$ 503,239	\$ -	\$ 839	\$ -	\$ (502,400)	\$ -	\$ (502,400)
Public safety	1,155,240	-	26,130	59,121	(1,069,989)	-	(1,069,989)
Transportation	181,684	-	62,228	-	(119,456)	-	(119,456)
Economic and physical development	-	-	-	5,010,000	5,010,000	-	5,010,000
Environmental protection	122,993	99,447	1,624	-	(21,922)	-	(21,922)
Cultural and recreation	191,873	15,629	2,020	-	(174,224)	-	(174,224)
Interest on long-term debt	6,144	-	-	-	(6,144)	-	(6,144)
Total governmental activities	<u>2,161,173</u>	<u>115,076</u>	<u>92,841</u>	<u>5,069,121</u>	<u>3,115,865</u>	<u>-</u>	<u>3,115,865</u>
Business-type activities:							
Water and sewer	1,615,987	1,563,113	-	-	-	(52,874)	(52,874)
Stormwater	12,496	23,220	-	-	-	10,724	10,724
Total business-type activities	<u>1,628,483</u>	<u>1,586,333</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(42,150)</u>	<u>(42,150)</u>
Total primary government	<u>\$ 3,789,656</u>	<u>\$ 1,701,409</u>	<u>\$ 92,841</u>	<u>\$ 5,069,121</u>	<u>3,115,865</u>	<u>(42,150)</u>	<u>3,073,715</u>
General revenues:							
Taxes:							
Property taxes, levied for general purpose					704,498	-	704,498
Other taxes					273,161	-	273,161
Grants and contributions not restricted to specific programs					759,468	-	759,468
Unrestricted investment earnings					14,436	6,519	20,955
Miscellaneous					17,175	-	17,175
Total general revenues					<u>1,768,738</u>	<u>6,519</u>	<u>1,775,257</u>
Change in net position					4,884,603	(35,631)	4,848,972
Net position, beginning					2,677,742	4,837,544	7,515,286
Restatement					(640,905)	(120,762)	(761,667)
Net position, beginning, restated					<u>2,036,837</u>	<u>4,716,782</u>	<u>6,753,619</u>
Net position, ending					<u>\$ 6,921,440</u>	<u>\$ 4,681,151</u>	<u>\$ 11,602,591</u>

The accompanying notes are an integral part of the financial statements.

Fund Financial Statements

Town of Haw River, North Carolina
Balance Sheet
Governmental Funds
June 30, 2018

	Major Fund		Total Governmental Funds
	General	Granite Mills Renovation Project Fund	
ASSETS			
Cash and cash equivalents	\$ 614,775	\$ -	\$ 614,775
Restricted cash	609,866	5,000,247	5,610,113
Receivables, net			
Taxes	12,278	-	12,278
Fire district levy	11,097	-	11,097
Accounts	6,905	-	6,905
Due from other governments	226,364	-	226,364
Total assets	<u>1,481,285</u>	<u>5,000,247</u>	<u>6,481,532</u>
LIABILITIES			
Accounts payable and accrued liabilities	51,292	-	51,292
Total liabilities	<u>51,292</u>	<u>-</u>	<u>51,292</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	12,278	-	12,278
Fire District taxes receivable	11,097	-	11,097
Total deferred inflows of resources	<u>23,375</u>	<u>-</u>	<u>23,375</u>
FUND BALANCES			
Restricted			
Stabilization by State Statute	233,269	-	233,269
Transportation	373,139	-	373,139
Public Safety	177,410	-	177,410
Cultural and Recreation	59,317	-	59,317
Economic development	-	5,000,247	5,000,247
Assigned			
Subsequent year's expenditures	100,300	-	100,300
Unassigned	463,183	-	463,183
Total fund balances	<u>1,406,618</u>	<u>5,000,247</u>	<u>6,406,865</u>
Total liabilities, deferred inflows of resources and fund balance	<u>\$ 1,481,285</u>	<u>\$ 5,000,247</u>	<u>\$ 6,481,532</u>

The accompanying notes are an integral part of the financial statements.

Town of Haw River, North Carolina
Balance Sheet
Governmental Funds
June 30, 2018

Exhibit 3

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

Total Fund Balance, Governmental Funds	\$	6,406,865
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost		5,369,313
Accumulated depreciation		<u>(3,442,395)</u>
		1,926,918
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position		
		209,207
Contributions to the OPEB plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position		
		69,154
Other long-term assets (accrued interest receivable from taxes) are not due and payable in the current-period expenditures and therefore are not reported in the funds.		
		1,002
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		
		23,375
Pension related deferrals		
		(51,900)
Other long-term liabilities, including bonds payable, accrued interest, pension and other postemployment benefits, and compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
		<u>(1,663,181)</u>
Net Position of governmental activities	\$	<u><u>6,921,440</u></u>

The accompanying notes are an integral part of the financial statements.

Town of Haw River, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2018

	Major Fund		Total Governmental Funds
	General Fund	Granite Mills Renovation Project Fund	
REVENUES			
Ad valorem taxes	\$ 710,903	\$ -	\$ 710,903
Other taxes and licenses	131	-	131
Unrestricted intergovernmental	759,468	-	759,468
Restricted intergovernmental	413,597	5,000,000	5,413,597
Sales and services	115,076	-	115,076
Investment earnings	14,189	247	14,436
Miscellaneous	32,682	-	32,682
Total revenues	<u>2,046,046</u>	<u>5,000,247</u>	<u>7,046,293</u>
EXPENDITURES			
Current:			
General government	507,602	-	507,602
Public safety	1,176,738	-	1,176,738
Transportation	216,247	-	216,247
Environmental protection	118,281	-	118,281
Cultural and recreation	186,358	-	186,358
Debt service:			
Principal and interest	87,019	-	87,019
Total expenditures	<u>2,292,245</u>	<u>-</u>	<u>2,292,245</u>
Excess (deficiency) of revenues over expenditures	<u>(246,199)</u>	<u>5,000,247</u>	<u>4,754,048</u>
OTHER FINANCING SOURCES (USES)			
Sales of capital assets	3,071	-	3,071
Total other financing sources (uses)	<u>3,071</u>	<u>-</u>	<u>3,071</u>
Net change in fund balance	(243,128)	5,000,247	4,757,119
Fund balances, beginning	<u>1,649,746</u>	<u>-</u>	<u>1,649,746</u>
Fund balances, ending	<u>\$ 1,406,618</u>	<u>\$ 5,000,247</u>	<u>\$ 6,406,865</u>

The accompanying notes are an integral part of the financial statements.

Town of Haw River, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2018

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

Net changes in fund balances - total governmental funds (Exhibit 4)		\$ 4,757,119
<p>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</p>		
Capital outlay expenditures which were capitalized	184,366	
Depreciation expense for governmental assets	<u>(175,872)</u>	8,494
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.		59,610
Benefit payments paid and administrative expense for LEOSSA are not included on the Statement of Activities		40,944
OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities.		69,154
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in unavailable revenue for tax revenues		(8,841)
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
New long-term debt issued	-	
Principal payments on long-term debt	79,962	
Decrease in accrued interest payable	<u>914</u>	80,876
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences	23,250	
Pension expense	(91,669)	
OPEB plan expense	<u>(54,334)</u>	<u>(122,753)</u>
Total changes in net position of governmental activities		<u>\$ 4,884,603</u>

The accompanying notes are an integral part of the financial statements.

Town of Haw River, North Carolina
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2018

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 712,000	\$ 712,000	\$ 710,903	\$ (1,097)
Other taxes and licenses	100	100	131	31
Unrestricted intergovernmental	724,000	724,000	759,468	35,468
Restricted intergovernmental	596,200	596,200	413,597	(182,603)
Sales and services	125,500	125,500	115,076	(10,424)
Investment earnings	3,560	3,560	14,189	10,629
Miscellaneous	15,400	15,400	32,682	17,282
Total revenues	2,176,760	2,176,760	2,046,046	(130,714)
Expenditures:				
Current:				
General government	412,330	412,330	507,602	(95,272)
Public safety	1,111,854	1,111,854	1,176,738	(64,884)
Transportation	455,047	455,047	216,247	238,800
Environmental protection	113,000	113,000	118,281	(5,281)
Cultural and recreation	186,344	186,344	186,358	(14)
Debt service:				
Principal and interest	87,021	87,021	87,019	2
Total expenditures	2,365,596	2,365,596	2,292,245	73,351
Revenues over (under) expenditures	(188,836)	(188,836)	(246,199)	(57,363)
Other financing sources (uses):				
Sale of capital assets	-	-	3,071	3,071
Total other financing sources (uses)	-	-	3,071	3,071
Fund balance appropriated	188,836	188,836	-	188,836
Net change in fund balance	\$ -	\$ -	(243,128)	\$ (243,128)
Fund balance, beginning			1,649,746	
Fund balance, ending			<u>\$ 1,406,618</u>	

The accompanying notes are an integral part of the financial statements.

Town of Haw River, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2018

	Major Fund			Non-Major Fund	
	Water	Water and Sewer Fund Sewer	Total	Stormwater Fund	Total
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 790,883	\$ 451,440	\$ 1,242,323	\$ 112,921	\$ 1,355,244
Restricted cash	33,406	53,769	87,175	-	87,175
Accounts receivable (net)	63,369	38,839	102,208	1,579	103,787
Total current assets	<u>887,658</u>	<u>544,048</u>	<u>1,431,706</u>	<u>114,500</u>	<u>1,546,206</u>
Noncurrent assets:					
Capital assets:					
Land and construction in progress	-	34,526	34,526	-	34,526
Other capital assets, net of depreciation	2,521,898	1,996,166	4,518,064	-	4,518,064
Capital assets	<u>2,521,898</u>	<u>2,030,692</u>	<u>4,552,590</u>	<u>-</u>	<u>4,552,590</u>
Total noncurrent assets	<u>2,521,898</u>	<u>2,030,692</u>	<u>4,552,590</u>	<u>-</u>	<u>4,552,590</u>
Total assets	<u>3,409,555</u>	<u>2,574,741</u>	<u>5,984,296</u>	<u>114,500</u>	<u>6,098,796</u>
DEFERRED OUTFLOWS OF RESOURCES					
Contributions to pension plan	15,584	9,552	25,136	-	25,136
Total deferred outflows of resources	<u>15,584</u>	<u>9,552</u>	<u>25,136</u>	<u>-</u>	<u>25,136</u>
LIABILITIES					
Current liabilities:					
Accounts payable and accrued liabilities	5,351	3,280	8,631	601	9,232
Customer deposits	33,406	20,474	53,880	-	53,880
Compensated absences - current	2,406	1,474	3,880	-	3,880
Revenue bonds - current	-	13,000	13,000	-	13,000
Installment obligations - current	-	22,263	22,263	-	22,263
Total current liabilities	<u>41,162</u>	<u>60,492</u>	<u>101,654</u>	<u>601</u>	<u>102,255</u>
Noncurrent liabilities:					
Other non-current liabilities:					
Net pension liability	19,753	12,107	31,860	-	31,860
Other postemployment benefits	108,352	66,409	174,761	-	174,761
Compensated absences-noncurrent	7,340	4,499	11,839	-	11,839
Installment obligations - noncurrent	-	400,739	400,739	-	400,739
Revenue Bonds - noncurrent	-	712,000	712,000	-	712,000
Total noncurrent liabilities	<u>135,445</u>	<u>1,195,754</u>	<u>1,331,199</u>	<u>-</u>	<u>1,331,199</u>
Total liabilities	<u>176,608</u>	<u>1,256,245</u>	<u>1,432,853</u>	<u>601</u>	<u>1,433,454</u>
DEFERRED INFLOWS OF RESOURCES					
Pension Deferrals	1,449	888	2,337	-	2,337
OPEB Deferrals	4,334	2,656	6,990	-	6,990
Total deferred inflows of resources	<u>5,783</u>	<u>3,544</u>	<u>9,327</u>	<u>-</u>	<u>9,327</u>
NET POSITION					
Net Investment in capital assets	2,521,898	882,690	3,404,588	-	3,404,588
Restricted - USDA	-	33,295	33,295	-	33,295
Unrestricted	720,852	408,517	1,129,369	113,899	1,243,268
Total net position	<u>\$ 3,242,749</u>	<u>\$ 1,324,503</u>	<u>\$ 4,567,252</u>	<u>\$ 113,899</u>	<u>\$ 4,681,151</u>

The accompanying notes are an integral part of the financial statements.

Town of Haw River, North Carolina
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	Major Enterprise Fund			Non-Major Enterprise Fund	
	Water and Sewer Fund			Stormwater Fund	
	Water	Sewer	Total		Total
OPERATING REVENUES					
Charges for services	\$ 945,228	\$ 577,026	\$ 1,522,254	\$ -	\$ 1,522,254
Taps and connection fees	8,400	-	8,400	-	8,400
Surcharges	-	1,200	1,200	-	1,200
Other operating revenues	19,381	11,878	31,259	23,220	54,479
Total operating revenues	<u>973,009</u>	<u>590,104</u>	<u>1,563,113</u>	<u>23,220</u>	<u>1,586,333</u>
OPERATING EXPENSES					
Administration	81,245	49,795	131,040	-	131,040
Water distribution	727,036	-	727,036	-	727,036
Sewer collection	-	542,770	542,770	-	542,770
Stormwater	-	-	-	12,496	12,496
Depreciation	120,823	74,053	194,875	-	194,875
Total operating expenses	<u>929,103</u>	<u>666,618</u>	<u>1,595,721</u>	<u>12,496</u>	<u>1,608,217</u>
Operating income (loss)	<u>43,905</u>	<u>(76,513)</u>	<u>(32,608)</u>	<u>10,724</u>	<u>(21,884)</u>
NONOPERATING REVENUES (EXPENSES)					
Investment earnings	4,042	2,477	6,519	-	6,519
Interest and other charges	-	(20,266)	(20,266)	-	(20,266)
Total nonoperating revenues (expenses)	<u>4,042</u>	<u>(17,789)</u>	<u>(13,747)</u>	<u>-</u>	<u>(13,747)</u>
Change in Net Position	47,947	(94,302)	(46,355)	10,724	(35,631)
Total Net Position, beginning	<u>3,361,402</u>	<u>1,372,967</u>	<u>4,734,369</u>	<u>103,175</u>	<u>4,837,544</u>
Restatement	<u>(74,872)</u>	<u>(45,890)</u>	<u>(120,762)</u>	<u>-</u>	<u>(120,762)</u>
Total Net Position, ending	<u>\$ 3,242,749</u>	<u>\$ 1,324,503</u>	<u>\$ 4,567,252</u>	<u>\$ 113,899</u>	<u>\$ 4,681,151</u>

The accompanying notes are an integral part of the financial statements.

Town of Haw River, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2018

	Major Enterprise Fund			Non-Major Enterprise Fund	Total
	Water and Sewer Fund		Stormwater Fund		
	Water	Sewer	Total		
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers	\$ 953,628	\$ 578,226	\$ 1,531,854	\$ 23,657	\$ 1,555,511
Cash paid for goods and services	(548,354)	(167,073)	(715,427)	(12,764)	(728,191)
Cash paid to or on behalf of employees for services	(158,388)	(363,258)	(521,646)	-	(521,646)
Customer deposits (net)	1,032	632	1,664	-	1,664
Other operating revenues	19,381	11,878	31,259	-	31,259
Net cash provided (used) by operating activities	<u>267,299</u>	<u>60,405</u>	<u>327,704</u>	<u>10,893</u>	<u>338,597</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition and construction of capital assets	(24,425)	(64,326)	(88,751)	-	(88,751)
Principal paid on installment purchase obligations	-	(35,263)	(35,263)	-	(35,263)
Interest paid on long-term debt	-	(20,266)	(20,266)	-	(20,266)
Net cash provided (used) by capital and related financing activities	<u>(24,425)</u>	<u>(119,855)</u>	<u>(144,280)</u>	<u>-</u>	<u>(144,280)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest and dividends	4,042	2,477	6,519	-	6,519
Net increase (decrease) in cash and cash equivalents	246,916	(56,972)	189,943	10,893	200,836
Balances, beginning	577,373	562,182	1,139,555	102,028	1,241,583
Balances, ending	<u>\$ 824,289</u>	<u>\$ 505,209</u>	<u>\$ 1,329,498</u>	<u>\$ 112,921</u>	<u>\$ 1,442,419</u>
Reconciliation of operating income to net cash provided by operating activities					
Operating Income	\$ 43,905	\$ (76,513)	\$ (32,608)	\$ 10,724	\$ (21,884)
Adjustments to reconcile operating income to net cash provided by operating activities:					
Depreciation	120,823	74,053	194,875	-	194,875
Change in assets, deferred outflows of resources, and liabilities:					
(Increase) decrease in accounts receivable	101,271	62,069	163,340	437	163,777
(Increase) decrease in deferred outflows of resources-pension	14,428	8,843	23,271	-	23,271
Increase (decrease) in accounts payable and accrued liabilities	3,016	1,848	4,864	(268)	4,596
Increase (decrease) in deferred inflows of resources-pension	(1,458)	(894)	(2,352)	-	(2,352)
Increase (decrease) in deferred inflows of resources-OPEB	4,334	2,656	6,990	-	6,990
Increase (decrease) in net pension liability	(14,617)	(8,959)	(23,575)	-	(23,575)
Increase (decrease) in customer deposits	1,032	632	1,664	-	1,664
Increase (decrease) in accrued vacation payable	(3,008)	(1,843)	(4,851)	-	(4,851)
Increase (decrease) in accrued postemployment benefits	(2,427)	(1,487)	(3,914)	-	(3,914)
Total adjustments	<u>223,393</u>	<u>136,919</u>	<u>360,312</u>	<u>169</u>	<u>360,481</u>
Net cash provided by operating activities	<u>\$ 267,299</u>	<u>\$ 60,405</u>	<u>\$ 327,704</u>	<u>\$ 10,893</u>	<u>\$ 338,597</u>

The accompanying notes are an integral part of the financial statements.

Notes to the Financial Statements

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Haw River (“the Town”) 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 is a municipal corporation that is governed by an elected mayor and a four-member council. As required by generally accepted accounting principles, these financial statements present the Town.

B. Basis of Presentation

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

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

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

Granite Mills Renovation Project Fund is the capital project fund used to account for grant money received for the renovation of Granite Mills.

The Town reports the following major enterprise fund:

Water and Sewer Fund. This fund is used to account for the Town’s water and sewer operations.

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

The Town reports the following non-major enterprise fund:

Stormwater Fund. This fund is used to account for the Town's stormwater program operations.

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's 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 expense for the enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

Sales taxes and certain intergovernmental revenues, such as 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

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Haw River because the tax is levied by Alamance 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. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then 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. A project ordinance is adopted for the Granite Mills Renovation Project Fund and the Lang Street Project Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$ 1,000. All amendments must be approved by the governing board 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 are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

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 it 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. Monies donated to the Town by the Haw River Civic Center Association Inc. are classified as restricted cash because they can only be expended for maintenance, upkeep and enhancement of the Haw River Civic Center Building per the terms of the agreement with the donor organization. Federal forfeiture funds are also classified as restricted cash because it can be expended only for activities to enhance future investigation; law enforcement training, equipment and operations; detention facilities; law enforcement facilities and equipment; and drug education and awareness programs per 21 U.S.C. 881 (e)(1)(A) and (e)(3), 18 U.S.C. 981 (e)(2), and 19 U.S.C. 1616a.. State authorized substance tax funds are

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

classified as restricted cash because it can be expended only for activities to enhance the Town's police department's ability to deter and investigate crimes, especially drug offenses per G.S. 105-113.105 through 105-113-113.

Haw River Restricted Cash

Governmental Activities		
General Fund	Public Safety	\$ 177,410
	Cultural and Recreation	59,317
	Transportation	373,139
	Economic Development	<u>5,000,247</u>
Total Governmental Activities		<u>\$ 5,610,113</u>
Business-type Activities		
Water and Sewer Fund	Customer Deposits	\$ 53,880
	USDA Reservation	<u>33,295</u>
Total Business-type Activities		<u>\$ 87,175</u>
Total Restricted Cash		<u>\$ 5,697,288</u>

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, 2017. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

The Town's General Fund and Water and Sewer Fund inventories consist of materials and supplies held for subsequent use. The costs of these inventories are expensed when purchased rather than when consumed.

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; equipment and furniture, \$5,000; vehicles and motorized equipment, \$10,000; \$5,000 computer software and computer equipment \$500. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. 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 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

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

asset or materially extend 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>
Buildings and improvements	40
Plant and Distribution System	40
Infrastructure	40
Equipment and Furniture	5-10
Vehicles	5
Computer equipment/software	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 applies to a future period and so will not be recognized as an expense or expenditure until then. The Town does has two items that meet this criterion, contributions made to the pension plan and OPEB plan in the 2018 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 four items that meet the criterion for this category – ad valorem tax receivable, fire tax receivable, OPEB deferrals 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

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 represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for law enforcement activities expenditures as well as fire department capital reserve monies from a percentage of the fire tax.

Restricted for Cultural and Recreation – portion of fund balance that is restricted by a donor organization for maintenance, upkeep and enhancement of the Haw River Civic Center Building.

Restricted for Economic Development – portion of fund balance that is restricted for renovation of the Granite Mills Project.

Assigned fund balance – portion of fund balance that Town of Haw River intends to use for specific purposes.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to transfer amounts up to \$1,000 between functional areas including contingency appropriations, within the same fund.

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

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

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

12. Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Haw River'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.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

II. Stewardship, Compliance, and Accountability

A. Noncompliance with North Carolina General Statutes

The Town's books were not delivered timely in accordance with State law [G.S.159-34(a)]. State law requires that the Town produce all books and records requested by the auditor and divulge such information relating to fiscal affairs as requested by the auditor. The Town did not have the books in order upon initial request by the auditor. Turnover in key positions at the Town caused the books not to be ready in order to have a timely audit.

The Town did not properly appoint a finance officer through board resolution in accordance with State law [G.S. 159-15]. State law requires that the Town Board appoint a finance officer. The Town had new employees join the staff during the fiscal year but a finance officer was not properly appointed.

B. Excess of Expenditures Over Appropriations

For the fiscal year ended June 30, 2018, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for the administration department by \$93,963, for the public buildings department by \$22,057, for the police department by \$20,575, for the fire department by \$44,309, for the sanitation department by \$5,281, for the recreation department by \$14. These over-expenditures occurred because of change in personnel and budget amendments were not made timely. Management and the Board will more closely review the budget reports to ensure compliance in future years.

III. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. 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 the Town's name. 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

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits, 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, 2018, the Town's deposits had a carrying amount of \$5,891,453 and a bank balance of \$5,923,870. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2018, the Town's petty cash fund totaled \$300.

2. Investments

At June 30, 2018, the Town's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust – Government Portfolio	<u>\$ 1,775,554</u>	N/A	AAAm
Total:	<u>\$ 1,775,554</u>		

Interest Rate Risk. The Town does not have a formal investment policy regarding interest rate risk.

Credit Risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2018.

3. Receivables – Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and Statement of Net Position for the year ended June 30, 2018 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable- allowance	\$ 9,262
Fire Districts levy -allowance	7,398
Garbage receivable-allowance	<u>3,818</u>
Total	<u>20,478</u>
Enterprise Funds:	
Accounts receivable	<u>25,532</u>
Total allowances	<u>\$ 46,010</u>

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2018, was as follows:

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Governmental activities:	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Capital assets not being depreciated:				
Land	\$ 167,968	\$ -	\$ -	\$ 167,968
Construction in progress	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total capital assets not being depreciated	<u>167,968</u>	<u>-</u>	<u>-</u>	<u>167,968</u>
Capital assets being depreciated:				
Buildings	876,344	24,000	-	900,344
Equipment	1,685,195	104,952	-	1,790,147
Infrastructure	1,510,767	-	-	1,510,767
Vehicles	<u>944,673</u>	<u>55,414</u>	<u>-</u>	<u>1,000,087</u>
Total capital assets being depreciated	<u>5,016,979</u>	<u>184,366</u>	<u>-</u>	<u>5,201,345</u>
Less accumulated depreciation for:				
Buildings and improvements	623,302	20,713	-	644,015
Equipment, furniture and fixtures	1,435,993	60,500	-	1,496,493
Infrastructure	730,250	37,370	-	767,620
Vehicles	<u>476,978</u>	<u>57,289</u>	<u>-</u>	<u>534,267</u>
Total accumulated depreciation	<u>3,266,523</u>	<u>\$ 175,872</u>	<u>\$ -</u>	<u>3,442,395</u>
Total capital assets being depreciated, net	<u>1,750,456</u>			<u>1,758,950</u>
Governmental activity capital assets, net	<u>\$ 1,918,424</u>			<u>\$ 1,926,918</u>

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

General government	\$ 18,831
Public safety	90,357
Transportation	57,176
Recreation	4,796
Environmental protection	<u>4,712</u>
Total depreciation expense	<u>\$ 175,872</u>

Business-type activities:	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	\$ 1,040	\$ -	\$ -	\$ 1,040
Construction in progress	<u>-</u>	<u>33,486</u>	<u>-</u>	<u>33,486</u>
Total capital assets not being depreciated	<u>1,040</u>	<u>33,486</u>	<u>-</u>	<u>34,526</u>
Capital assets being depreciated:				
Plant and distribution systems	9,141,764	-	-	9,141,764
Equipment and furniture	193,978	6,415	-	200,393
Vehicles	<u>32,192</u>	<u>48,850</u>	<u>-</u>	<u>81,042</u>
Total capital assets being depreciated	<u>9,367,934</u>	<u>55,265</u>	<u>-</u>	<u>9,423,199</u>
Less accumulated depreciation for:				
Plant and distribution systems	4,485,162	186,541	-	4,671,702
Equipment and furniture	193,978	748	-	194,727
Vehicles	<u>31,120</u>	<u>7,586</u>	<u>-</u>	<u>38,706</u>
Total accumulated depreciation	<u>4,710,260</u>	<u>\$ 194,875</u>	<u>\$ -</u>	<u>4,905,135</u>
Total capital assets being depreciated, net	<u>4,657,674</u>			<u>4,518,064</u>
Business-type activities capital assets, net	<u>\$ 4,658,714</u>			<u>\$ 4,552,590</u>

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Haw River employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Haw River's contractually required contribution rate for the year ended June 30, 2018, was 8.25% of compensation for law enforcement officers and 7.50% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Haw River were \$69,403 for the year ended June 30, 2018.

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

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

At June 30, 2018, the Town reported a \$225,797 liability for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The Town’s proportion of the net pension asset 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, 2018, the Town’s proportion was 0.0148%, which was a increase of 0.0017% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2018, the Town recognized pension expense of \$75,237. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 13,008	\$ 6,392
Changes of assumptions	32,247	-
Net difference between projected and actual earnings on pension plan investments	54,824	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	8,660	10,174
Town contributions subsequent to the measurement date	69,403	-
TOTAL	\$ 178,142	\$ 16,566

\$69,403 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$ 11,152
2020	64,221
2021	31,783
2022	<u>(14,983)</u>
Total	<u>\$ 92,173</u>

Actuarial Assumptions. The total pension liability in the December 31, 2016 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	7.20 percent, net of pension plan investment expense, including inflation

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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, 2016 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, 2015 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 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 7.20%. 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 7.20 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 (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

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	1% Decrease <u>(6.20%)</u>	Discount Rate <u>(7.20%)</u>	1% Increase <u>(8.20%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 677,849	\$ 225,797	\$ (151,523)

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

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description.

The Town of Haw River administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 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, 2016, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Active plan members	<u>7</u>
Total	<u>10</u>

2. Summary of Significant Accounting Policies:

Basis of Accounting. The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with 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 Statements 73.

3. Actuarial Assumptions.

The entry age actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2016. Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

4. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the 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

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Assembly. There were no contributions made by employees. The Town paid \$41,226 as benefits came due for the reporting period.

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

At June 30, 2018, the Town reported a total pension liability of \$320,959. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was then rolled forward to a measurement date of December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Town recognized pension expense of \$27,005.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 24,775	\$ -
Changes of assumptions	11,074	2,730
Town benefit payments and plan administrative expense subsequent to the measurement date	20,352	-
TOTAL	\$ 56,201	\$ 2,730

\$20,352 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2019	\$ 8,454
2020	8,454
2021	8,454
2022	<u>7,757</u>
Total	<u>\$ 33,119</u>

Sensitivity of the Town's total pension liability to the changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.16 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.16 percent) or 1-percentage-point higher (4.16 percent) than the current rate:

	1% Decrease <u>(2.16%)</u>	Discount Rate <u>(3.16%)</u>	1% Increase <u>(4.16%)</u>
Total pension liability	\$ 341,562	\$ 320,959	\$ 301,979

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

Beginning Balance	\$ 298,424
Service Cost	7,827
Interest on total pension liability	10,724
Changes of benefit terms	-
Differences between expected and actual experience	31,244
Changes in assumptions or other inputs	13,966
Benefit payments	(41,226)
Other changes	-
Ending Balance	<u>\$ 320,959</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, 2016 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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension Expense	\$ 75,237	\$ 27,005	\$ 102,242
Pension Liability	225,797	320,959	546,756
Proportionate share of the net pension liability	.0148%	N/A	

Deferred Outflows of Resources

Differences between expected and actual experience	13,008	24,775	37,783
Changes of assumptions	32,247	11,074	43,321
Net difference between projected and actual earnings on plan investments	54,824	-	54,824
Changes in proportion and differences between contributions and proportionate share of contributions	8,660	-	8,660
Benefit payments and administrative costs paid subsequent to the measurement date	69,403	20,352	89,755

Deferred Inflows of Resources

Differences between expected and actual experience	6,392	-	6,392
Changes of assumptions	-	2,730	2,730
Changes in proportion and differences between contributions and proportionate share of contributions	10,174	-	10,174

c. Supplemental Retirement Income Plan for Law Enforcement Officers

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of

Town of Haw River, North Carolina
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North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2018 were \$17,805, which consisted of \$17,325 from the Town and \$480 from the law enforcement officers.

The Town has also elected to have all of its other employees who are members of the Local Governmental Employees' Retirement System participate in the Supplemental Retirement Income Plan. The Town contributes 5% for non-law enforcement officers, and employees may make voluntary contributions to the plan. Contributions for non-law enforcement officers for the year ended June 30, 2018 were \$33,780 which consisted of \$27,401 from the Town and \$6,379 from the employees.

d. Firefighter's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Haw River, to the Firefighter's and Rescue Squad Workers' Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the state House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Firefighter's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firefighter's and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions. Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town has elected to contribute the required \$10 per month to the Fund on behalf of each plan member. Total contributions from the Town for the year ended June 30, 2018 were \$2,170. For fiscal year June 30, 2017, the State contributed \$17,602,000 to the plan. The Town of Haw River's proportionate share of the State's contribution is \$8,709.

Refunds of Contributions. Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

Town of Haw River, North Carolina
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Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the Town reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the Town through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the Town and supported by the State was \$24,002. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 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 contributions to the pension plan relative to the projected contributions of all participating employers. As the Town is not projected to make any future contributions to the plan, its proportionate share at June 30, 2017 and at June 30, 2016 was 0%.

For the year ended June 30, 2018, the Town recognized pension expense of \$5,252 and revenue of \$5,252 for support provided by the State. At June 30, 2018, the Town reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Actuarial Assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Not applicable
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

Discount rate. The discount rate used to measure the total pension liability was 7.20%. 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.

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

e. Other Postemployment Benefits

Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan), health care benefits to retirees of the Town, provided they retire under the provisions set forth under the North Carolina Local Governmental Employees' Retirement System (NCLGERS) and are eligible for continuation of the same coverage in the Town's group health insurance plan until the retiree becomes eligible for Medicare. Health care and prescription drug coverage are provided through the purchase of individual health insurance plans for each retiree. The Town subsidizes this coverage until the retiree becomes eligible for Medicare.

The Town's contribution to the cost of coverage for eligible retirees is based on the following schedule:

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The Town will pay the percentage of premium for coverage for employees hired before August 1, 2010 based on the following schedule:

<u>Years of Service At Retirement</u>	<u>Town Contribution</u>
20 or more	100 %
15-19	75%
10-14	50%
5-9	25%

The Town will pay the percentage of premium for coverage for employees hired on or after August 1, 2010 based on the following schedule:

<u>Years of Service At Retirement</u>	<u>Town Contribution</u>
30 or more	100 %
25-29	75%
20-24	50%

Employees with five or more years of Town service who retire under disability will have 100% of the health plan premium paid by the Town.

Membership of the HCB Plan consisted of the following at June 30, 2016, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement Officers</u>
Retirees and dependents receiving benefits	4	3
Active plan members	11	7
Total	<u>15</u>	<u>10</u>

Total OPEB Liability

The Town's total OPEB liability of \$1,048,358 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.5 percent
Salary increases	3.50 to 7.75 percent, including inflation
Discount rate	3.16 percent
Healthcare cost trend rates	Pre-Medicare 7.75% for 2016 decreasing to an ultimate rate of 5.00% by 2022

The discount rate is based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

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Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at July 1, 2016	\$ 1,071,838
Changes for the year:	
Service cost	43,992
Interest	31,564
Changes of benefit terms	-
Differences between expected and actual experience	(6,480)
Changes in assumptions or other inputs	(45,804)
Benefit payments	<u>(46,752)</u>
Net changes	<u>(23,480)</u>
Balance at June 30, 2017	<u><u>\$ 1,048,358</u></u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.01% to 3.56%.

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

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2014, adopted by the LGERS. The remaining actuarial assumptions (e.g. initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2016 valuation were based on a review of a recent plan experience done concurrently with the June 30, 2016 valuation.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.56 percent) or 1-percentage-point higher (4.56 percent) than the current discount rate:

	1% Decrease <u>(2.56%)</u>	Discount Rate <u>(3.56%)</u>	1% Increase <u>(4.56%)</u>
Total OPEB liability	\$ 1,133,389	\$ 1,048,358	\$ 970,876

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.75 percent) or 1-percentage-point higher (8.75 percent) than the current healthcare cost trend rates:

	1% Decrease <u>(6.75%)</u>	Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
Total OPEB liability	\$ 943,666	\$ 1,048,358	\$ 1,170,279

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

For the year ended June 30, 2018, the Town recognized OPEB expense of \$65,203. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

Town of Haw River, North Carolina
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	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 5,197
Changes of assumptions	-	36,734
Town benefit payments and plan administrative expense subsequent to the measurement date	46,752	-
TOTAL	\$ 46,752	\$ 41,931

\$20,352 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 10,353
2019	10,353
2020	10,353
2021	10,353
2022	519
Total	\$ 41,931

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 of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest month's 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. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

The Town had deferred outflows of resources. Deferred outflows of resources are comprised of the following:

<u>Source</u>	<u>Amount</u>
Pension deferrals	\$ 193,039
Benefit payments made for LEOSSA	40,944
Benefit payments made for OPEB	69,514
Total	\$ 303,497

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

Town of Haw River, North Carolina
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<u>Source</u>	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Pension deferrals	\$ 19,296	\$ -
OPEB deferrals	41,931	-
Taxes receivable (General Fund)	<u>-</u>	<u>23,375</u>
Total	<u>\$ 61,227</u>	<u>\$ 23,375</u>

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$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. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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

The Town has blanket coverage up to \$5 million in flood insurance as long as it is in NFIP Flood Map Zones B, C, and X; outside of these zones, there is no coverage. There is a \$50,000 deductible.

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 is individually bonded for \$50,000 and the town clerk and other employees are covered under \$10,000 bond through a blanket policy.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2018, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Long-Term Obligations

a. Installment Purchases

Governmental Activities:

In February 2009, the Town entered into an installment purchase contract to finance a Fire Engine. The financing contract requires 10 annual payments of \$47,574 beginning in fiscal year 2010 with an interest rate of 4.15%.

Annual debt service payments of the installment purchase as of June 30, 2018, including \$1,896 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2019	<u>\$ 45,678</u>	<u>\$1,896</u>
Total	<u>\$ 45,678</u>	<u>\$1,896</u>

In June 2016, the Town entered into an installment purchase contract to finance two police cars. The financing contract requires 5 annual payments of \$18,935 beginning in fiscal year 2017 with an interest rate of 2.09%.

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

Annual debt service payments of the installment purchase as of June 30, 2018, including \$2,294 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2019	\$17,795	\$1,139
2020	18,167	767
2021	<u>18,544</u>	<u>388</u>
Total	<u>\$54,506</u>	<u>\$ 2,294</u>

In April 2017, the Town entered into an installment purchase contract to finance a 2017 Freightliner Grapple Truck. The financing contract requires 7 annual payments of \$20,511 beginning in fiscal year 2018 with an interest rate of 1.75%.

Annual debt service payments of the installment purchase as of June 30, 2018, including \$7,153 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 18,492	\$ 2,019
2020	18,816	1,695
2021	19,145	1,366
2022	19,480	1,031
2023	19,821	690
2024	<u>19,605</u>	<u>343</u>
Total	<u>\$ 115,357</u>	<u>\$ 7,153</u>

Business-type Activities:

b. Installment Obligations

In May 2017, the Town entered into an installment purchase contract with the LGC to finance the sanitary sewer project. The financing contract requires 20 annual payments of \$22,263 beginning in fiscal year 2018 with no interest.

Annual debt service payments of the installment purchase as of June 30, 2018, including \$0 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>
2019	\$ 22,263
2020	22,263
2021	22,263
2022	22,263
2023	22,263
2024-2028	111,315
2029-2033	111,315
2034-2037	<u>89,057</u>
Total	<u>\$ 423,002</u>

c. Revenue Bonds

\$774,000 Water and Sewer Revenue Bond, Series 2012 issued for sewer system improvements. Principal installments are due annually on June 1, beginning June 2015 with annual interest payments beginning June 2013, at an annual interest rate of 2.75%.

\$ 725,000

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 13,000	\$ 19,938
2020	14,000	19,580
2021	14,000	19,195
2022	14,000	18,810
2023	15,000	18,425
2024-2028	79,000	85,855
2029-2033	91,000	74,333
2034-2038	104,000	61,105
2039-2043	120,000	45,952
2044-2048	137,000	28,545
2049-2052	<u>124,000</u>	<u>8,607</u>
Total	<u>\$ 725,000</u>	<u>\$ 400,345</u>

The Town of Haw River is in compliance with the covenants as to rates, fees, rentals and charges in the Section 3.1 Bond Order, authorizing the issuance of the Water and Sewer Revenue bonds, series 2012. Section 3.1 of the Bond Order requires the debt service coverage ratio to be no less than 110%. The debt service coverage ratio calculation for the year ended June 30, 2018, is as follows:

Operating revenues	\$ 1,563,113
Operating expenses*	<u>1,400,846</u>
Operating income	162,267
Nonoperating revenues (expenses)**	<u>6,519</u>
Income available for debt service	168,786
Debt service, principal and interest paid (Revenue bond only)	\$ <u>33,295</u>
Debt service coverage ratio	507%

*Per rate covenants, this does not include the depreciation expense of \$194,875.

**Per rate covenants, this does not include revenue bond interest paid of \$20,266.

The Town has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$774,000 in water and sewer system revenue bonds issued August 2012. Proceeds from the bonds provided financing for sewer improvements. The bonds are payable solely from water and sewer customer net revenues and are payable through June 2052. Annual principal and interest payments on the bonds are expected to require less than 3% of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,125,345. Principal and interest paid for the current year and total customer net revenues were \$13,000 and \$20,295, respectively.

B. Changes in Long-Term Liabilities

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Governmental activities:					
Installment purchases	\$ 295,503	\$ -	\$ 79,962	\$ 215,541	\$ 81,965
Compensated absences	80,737	-	23,250	57,487	14,372
Total pension liability (LEO)	298,424	22,535	-	320,959	-
Other postemployment benefits	654,205	219,392	-	873,597	-
Net pension liability (LGERS)	<u>221,742</u>	<u>-</u>	<u>27,805</u>	<u>193,937</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$1,550,611</u>	<u>\$ 241,927</u>	<u>\$ 131,017</u>	<u>\$ 1,661,521</u>	<u>\$ 96,337</u>

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

	<u>Beginning</u> <u>Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balance</u>	<u>Current</u> <u>Portion</u>
Business-type activities:					
Revenue Bonds	\$ 738,000	\$ -	\$ 13,000	\$ 725,000	\$ 13,000
Installment purchases	445,265	-	22,263	423,002	22,263
Compensated absences	20,570	-	4,851	15,719	3,880
Other postemployment benefits	178,675	-	3,914	174,761	-
Net pension liability (LGERS)	<u>55,435</u>	<u>-</u>	<u>23,575</u>	<u>31,860</u>	<u>-</u>
Business-type activity long-term liabilities	<u>\$1,437,945</u>	<u>\$ -</u>	<u>\$ 67,603</u>	<u>\$ 1,370,342</u>	<u>\$ 39,143</u>

At June 30, 2018, the Town of Haw River had bonds authorized but unissued of \$738,000 and a legal debt margin of \$10,334,731.

C. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 1,926,918	\$ 4,552,590
Less: Long-term debt	<u>215,541</u>	<u>1,148,002</u>
Net investment in capital assets	<u>\$ 1,711,377</u>	<u>\$ 3,404,588</u>

D. Fund Balance

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

<i>Total fund balance-General Fund</i>	<i>1,406,618</i>
Less:	
Stabilization by State Statute	233,269
Streets-Powell Bill	373,139
Public Safety	177,410
Cultural and Recreation	59,317
Appropriated in 2019 budget	100,300
Remaining Fund Balance	463,183

IV. Jointly Governed Organization

The Town, in conjunction with six counties and thirty-eight other municipalities established the Piedmont Triad Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$550 to the Council during the fiscal year ended June 30, 2018.

V. 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 agreement. Such audits could result in the refund of grant monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2018

VI. Significant Effects of Subsequent Events

Events Occurring After Reporting Date

The Town has evaluated events and transactions that occurred between June 30, 2018 and June 26, 2019, which is the date that the financial statements were available to be issued, for possible recognition or disclosure in the financial statements. There were no events that occurred during this time that were deemed to be significant enough to be disclosed.

VII. Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB No. Statement 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ending June 30, 2018. The implementation of the statement required the Town to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the Town to OPEB during the measurement period (fiscal year ending June 30, 2017). As a result, net position for the governmental activities decreased \$640,905 and \$120,762 for the business-type activities.

Required Supplementary Financial Data

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

- Schedule of Proportionate Share of Net Pension Liability for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System
- Schedule of Proportionate Share of Net Pension Asset for Firefighters' and Rescue Squad Workers' Pension
- Schedule of Changes in Total Pension Liability – Law Enforcement Officers' Special Separation Allowance
- Schedule of Total Pension Liability as a Percentage of Covered Payroll – Law Enforcement Officers' Special Separation Allowance
- Schedule of Changes in the Total OPEB Liability and Related Ratios for the Healthcare Benefits Plan

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

Local Government Employees' Retirement System	2018	2017	2016	2015	2014
Haw River's proportion of the net pension liability (asset) (%)	0.0148%	0.0131%	0.0159%	-0.02%	0.02%
Haw River's proportion of the net pension liability (asset) (\$)	\$ 225,797	\$ 277,177	\$ 71,448	\$ (92,000)	\$ 186,835
Haw River's covered-employee payroll	838,049	823,716	900,346	867,546	829,947
Haw River's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	26.94%	33.65%	7.94%	-10.60%	22.51%
Plan fiduciary net position as a percentage of the total pension liability **	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.

Information included above is intended to include ten years; however, only the years above have information available. Additional years will be included as information becomes available.

Town of Haw River, North Carolina
Town of Haw River's Contributions
Required Supplementary Information
Last Five Fiscal Years

Local Government Employees' Retirement System

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 69,403	\$ 63,188	\$ 56,447	\$ 64,795	\$ 62,013
Contributions in relation to the contractually required contribution	<u>69,403</u>	<u>63,188</u>	<u>56,447</u>	<u>64,795</u>	<u>62,013</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Haw River's covered-employee payroll	890,724	838,049	823,716	900,346	867,546
Contributions as a percentage of covered-employee payroll	7.79%	7.54%	6.85%	7.20%	7.15%

Information included above is intended to include ten years; however, only the years above have information available. Additional years will be included as information becomes available.

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

Firefighters' and Rescue Squad Workers' Pension

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Haw River's proportion of the net pension liability (asset) (%)	0.00%	0.00%	0.00%	0.00%
Haw River's proportion of the net pension liability (asset) (\$)	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with the Town of Haw River	8,709	9,738	9,668	8,052
Total	<u>\$ 8,709</u>	<u>\$ 9,738</u>	<u>\$ 9,668</u>	<u>\$ 8,052</u>
Haw River's covered-employee payroll	\$ 124,029	\$ 128,712	\$ 129,704	\$ 154,476
Haw River's proportionate share of the net pension liability as percentage of its covered-employee payroll	7.02%	7.57%	7.45%	5.21%
Plan fiduciary net position as a percentage of the total pension liability	89.35%	84.94%	91.40%	93.42%

* The amounts presented are for the prior fiscal year.

Information included above is intended to include ten years; however, only the years above have information available. Additional years will be included as information becomes available.

Town of Haw River, North Carolina
Scheduel of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
June 30, 2018

	<u>2018</u>	<u>2017</u>
Beginning Balance	298,424	325,121
Service Cost	7,827	7,671
Interest on the total pension liability	10,724	10,880
Differences between expected and actual experience	31,244	-
Changes of assumptions or other inputs	13,966	(4,544)
Benefit payments	(41,226)	(40,704)
Ending balance of the total pension liability	<u>\$ 320,959</u>	<u>\$ 298,424</u>

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

Information included above is intended to include ten years; however, only the years above have information available. Additional years will be included as information becomes available.

Town of Haw River, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
June 30, 2018

	2018	2017
Total pension liability	\$ 320,959	\$ 298,424
Covered payroll	306,270	353,791
Total pension liability as a percentage of covered payroll	104.80%	84.35%

Notes to the schedules:

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

Information included above is intended to include ten years; however, only the years above have information available. Additional years will be included as information becomes available.

Town of Haw River, North Carolina
Schedule of Changes in the Total OPEB Liability and Related Ratios
Healthcare Benefits Plan
For the Year Ended June 30, 2018

Total OPEB Liability	2018
Service Cost	\$ 43,992
Interest on the total pension liability	31,564
Differences between expected and actual experience	(6,480)
Changes of assumptions or other inputs	(45,804)
Benefit payments	(46,752)
Net change in total OPEB liability	(23,480)
Total OPEB liability - beginning	1,071,838
Total OPEB liability - ending	\$ 1,048,358
Covered payroll	751,096
Total OPEB liability as a percentage of covered payroll	139.58%

Notes to Schedule

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

Fiscal Year	Rate
2018	3.56%

Information included above is intended to include ten years; however, only the years above have information available. Additional years will be included as information becomes available.

Individual Fund Schedules

General Fund

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

Town of Haw River, North Carolina
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018

	Original Budget	Budget	Actual	Variance Positive (Negative)
Revenues:				
Ad valorem taxes:				
Current year	\$ 685,000	\$ 685,000	\$ 691,333	
Prior years	17,000	17,000	12,626	
Penalties and interest	10,000	10,000	6,944	
Total	<u>712,000</u>	<u>712,000</u>	<u>710,903</u>	<u>(1,097)</u>
Other taxes and licenses:				
Motor vehicle licenses	100	100	131	31
Total	<u>100</u>	<u>100</u>	<u>131</u>	<u>31</u>
Unrestricted intergovernmental:				
Local option sales taxes	468,000	468,000	513,970	
Hold harmless distribution	85,000	85,000	79,769	
Utility franchise tax	160,000	160,000	155,399	
Beer and wine tax	11,000	11,000	10,330	
Total	<u>724,000</u>	<u>724,000</u>	<u>759,468</u>	<u>35,468</u>
Restricted intergovernmental:				
Powell Bill allocation	245,000	245,000	62,228	
Alamance County fire district tax	281,000	281,000	275,466	
Federal grants	64,000	64,000	54,388	
Equitable share of Federally forfeited property	3,500	3,500	15,572	
Unauthorized substance tax	1,250	1,250	4,319	
Solid waste disposal tax	1,450	1,450	1,624	
Total	<u>596,200</u>	<u>596,200</u>	<u>413,597</u>	<u>(182,603)</u>
Sales and services:				
Rentals	14,500	14,500	12,281	
Recreation department fees	8,500	8,500	3,348	
Refuse collection fees	102,500	102,500	99,447	
Total	<u>125,500</u>	<u>125,500</u>	<u>115,076</u>	<u>(10,424)</u>
Investment earnings	3,560	3,560	14,189	10,629
Miscellaneous:				
Police Department	2,500	2,500	11,029	
Park donations	1,500	1,500	2,020	
Fire department	500	500	5,530	
Other revenues	10,900	10,900	14,103	
Total	<u>15,400</u>	<u>15,400</u>	<u>32,682</u>	<u>17,282</u>
Total revenues	<u>2,176,760</u>	<u>2,176,760</u>	<u>2,046,046</u>	<u>(130,714)</u>

Town of Haw River, North Carolina
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018

	Original Budget	Budget	Actual	Variance Positive (Negative)
Expenditures:				
General government:				
Governing body:				
Salaries and employee benefits	10,852	10,852	10,851	
Other operating expenditures	6,000	6,000	4,304	
Capital outlay	4,500	4,500	1,800	
Total	<u>21,352</u>	<u>21,352</u>	<u>16,955</u>	<u>4,397</u>
Administration:				
Salaries and employee benefits	123,379	123,379	150,668	
Maintenance	3,000	3,000	1,350	
Other operating expenditures	98,200	98,200	167,281	
Capital outlay	2,500	2,500	1,743	
Total	<u>227,079</u>	<u>227,079</u>	<u>321,042</u>	<u>(93,963)</u>
Public buildings:				
Other operating expenditures	36,500	36,500	36,057	
Capital improvements	5,000	5,000	27,500	
Total	<u>41,500</u>	<u>41,500</u>	<u>63,557</u>	<u>(22,057)</u>
Non-departmental:				
Insurance and bonds	103,150	103,150	87,004	16,146
Special appropriations:				
Elections	2,000	2,000	1,796	204
Cemetery association	1,000	1,000	1,000	-
Animal shelter	16,249	16,249	16,248	1
Total	<u>19,249</u>	<u>19,249</u>	<u>19,044</u>	<u>205</u>
Total general government	<u>412,330</u>	<u>412,330</u>	<u>507,602</u>	<u>(95,272)</u>
Public safety:				
Police:				
Salaries and employee benefits	576,759	576,759	561,682	
Vehicle maintenance	21,000	21,000	22,054	
Other operating expenditures	52,743	52,743	87,803	
Capital outlay	73,800	73,800	73,338	
Total	<u>724,302</u>	<u>724,302</u>	<u>744,877</u>	<u>(20,575)</u>
Fire:				
Salaries and employee benefits	307,923	307,923	304,935	
Vehicle maintenance	24,000	24,000	39,776	
Other operating expenditures	52,629	52,629	86,465	
Capital outlay	3,000	3,000	685	
Total	<u>387,552</u>	<u>387,552</u>	<u>431,861</u>	<u>(44,309)</u>
Total public safety	<u>1,111,854</u>	<u>1,111,854</u>	<u>1,176,738</u>	<u>(64,884)</u>

Town of Haw River, North Carolina
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2018

	Original Budget	Budget	Actual	Variance Positive (Negative)
Transportation:				
Streets and highways:				
Salaries and employee benefits	102,297	102,297	85,466	
Vehicle maintenance	7,000	7,000	4,837	
Street Lights	23,000	23,000	22,969	
Contracted services	151,500	151,500	3,100	
Other operating expenditures	22,250	22,250	15,042	
Capital outlay	149,000	149,000	84,833	
Total transportation	<u>455,047</u>	<u>455,047</u>	<u>216,247</u>	<u>238,800</u>
Environmental protection:				
Solid waste:				
Contracted services	113,000	113,000	118,281	
Total environmental protection	<u>113,000</u>	<u>113,000</u>	<u>118,281</u>	<u>(5,281)</u>
Culture and recreation:				
Parks and recreation:				
Salaries and employee benefits	123,494	123,494	140,539	
Vehicle maintenance	3,300	3,300	3,145	
Other operating expenditures	47,050	47,050	42,009	
Capital outlay	12,500	12,500	665	
Total culture and recreation	<u>186,344</u>	<u>186,344</u>	<u>186,358</u>	<u>(14)</u>
Debt Service:				
Principal			79,962	
Interest			7,057	
Total debt service	<u>87,021</u>	<u>87,021</u>	<u>87,019</u>	<u>2</u>
Total expenditures	<u>2,365,596</u>	<u>2,365,596</u>	<u>2,292,245</u>	<u>73,351</u>
Revenues over (under) expenditures	(188,836)	(188,836)	(246,199)	(57,363)
Other financing sources (uses):				
Sales of capital assets	-	-	3,071	3,071
Total	<u>-</u>	<u>-</u>	<u>3,071</u>	<u>3,071</u>
Fund balance appropriated	<u>188,836</u>	<u>188,836</u>	<u>-</u>	<u>(188,836)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(243,128)</u>	<u>\$ (243,128)</u>
Fund balances, beginning			<u>1,649,746</u>	
Fund balances, ending			<u>\$ 1,406,618</u>	

Capital Projects Fund

The capital projects fund accounts for resources used to acquire and/or construct a capital asset.

The Granite Mills Renovation Project Fund is used to account for grant money received and spent to renovate the Granite Mill for economic development purposes.

Town of Haw River, North Carolina
Granite Mills Renovation Project Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
From Inception and for the fiscal year ended June 30, 2018

	Project Authorization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Restricted intergovernmental					
NC Dept of Commerce grant	\$ -	\$ -	\$ 5,000,000	\$ 5,000,000	\$ (5,000,000)
Investment earning	-	-	247	247	(247)
Total	-	-	5,000,247	5,000,247	(5,000,247)
Expenditures					
Engineering	-	-	-	-	-
Construction Administration	-	-	-	-	-
Permitting	-	-	-	-	-
Reimbursable Expenses	-	-	-	-	-
Grant/Loan Admin	-	-	-	-	-
Total	-	-	-	-	-
Revenues under expenditures	-	-	5,000,247	5,000,247	(5,000,247)
Other Financing Sources					
Transfer from Water/Sewer	-	-	-	-	-
Debt proceeds	-	-	-	-	-
Total	-	-	-	-	-
Revenues over expenditures and other financing sources	\$ -	\$ -	\$ 5,000,247	\$ 5,000,247	\$ (5,000,247)

Enterprise Funds

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

Water and Sewer Fund – This fund is used to account for the Town's water and sewer operations.

Lang Street Capital Project Fund- This fund is use to account for the Town's water and sewer capital project operations.

Stormwater Fund – This fund is used to account for the Town's stormwater program operations.

Town of Haw River, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2018

	Budget	Actual		Total	Variance Positive (Negative)
		Water	Sewer		
Operating Revenues:					
Charges for services:					
Water sales	\$ 970,000	\$ 945,228	\$ -	\$ 945,228	\$ (24,772)
Sewer charges	605,000	-	577,026	577,026	(27,974)
Surcharges	1,200	-	1,200	1,200	-
Total	<u>1,576,200</u>	<u>945,228</u>	<u>578,226</u>	<u>1,523,454</u>	<u>(52,746)</u>
Taps and connection fees	7,000	8,400	-	8,400	1,400
Other operating revenues	29,500	19,381	11,878	31,259	1,759
Total operating revenues	<u>1,612,700</u>	<u>973,009</u>	<u>590,104</u>	<u>1,563,113</u>	<u>(49,587)</u>
Nonoperating revenues:					
Interest earnings	2,400	4,042	2,477	6,519	4,119
Total revenues	<u>1,615,100</u>	<u>977,050</u>	<u>592,582</u>	<u>1,569,632</u>	<u>(45,468)</u>
Expenditures:					
Water and sewer administration:					
Salaries and employee benefits	110,986	56,660	34,727	91,387	19,599
Supplies and materials	1,500	1,290	791	2,081	(581)
Contracted services	5,000	12,303	7,541	19,844	(14,844)
Other operating expenses	52,003	13,251	8,122	21,373	30,630
Capital outlay	3,000	-	-	-	3,000
Total water and sewer administration	<u>172,489</u>	<u>83,505</u>	<u>51,180</u>	<u>134,685</u>	<u>37,804</u>
Water distribution:					
Salaries and employee benefits	68,057	68,242	-	68,242	(185)
Supplies	8,000	12,393	-	12,393	(4,393)
Maintenance	4,500	2,606	-	2,606	1,894
Water purchased for resale	685,000	608,802	-	608,802	76,198
Other operating expenditures	20,325	17,304	-	17,304	3,021
Capital outlay	51,000	43,141	-	43,141	7,859
Total water distribution	<u>836,882</u>	<u>752,488</u>	<u>-</u>	<u>752,488</u>	<u>84,394</u>
Sewer collection system:					
Salaries and employee benefits	71,679	-	72,017	72,017	(338)
Supplies	8,000	-	6,020	6,020	1,980
Maintenance	8,500	-	2,262	2,262	6,238
Purchase of sewer service	425,000	-	402,176	402,176	22,824
Other operating expenditures	52,350	-	58,448	58,448	(6,098)
Capital outlay	51,700	-	32,447	32,447	19,253
Total sewer collection system	<u>617,229</u>	<u>-</u>	<u>573,370</u>	<u>573,370</u>	<u>43,859</u>
Debt Service:					
Principal	-	-	35,263	35,263	-
Interest	-	-	20,295	20,295	-
Total debt service	<u>58,500</u>	<u>-</u>	<u>55,558</u>	<u>55,558</u>	<u>2,942</u>
Total expenditures	<u>1,685,100</u>	<u>835,993</u>	<u>680,108</u>	<u>1,516,101</u>	<u>1,004,992</u>
Revenues over (under) expenditures	(70,000)	141,058	(87,527)	53,531	123,531
Other financing sources (uses):					
Appropriated Fund Balance	70,000	-	-	-	70,000
Revenues and other sources over expenditures and other uses:	<u>\$ -</u>	<u>\$ 141,058</u>	<u>\$ (87,527)</u>	<u>\$ 53,531</u>	<u>\$ 53,531</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:					
Revenues and other sources over expenditures and other uses				53,531	
Reconciling Items:					
Principal retirement				35,263	
Capital Outlay				55,265	
Increase (Decrease) in deferred outflows of resources-pensions				(23,271)	
(Increase) Decrease in net pension liability				23,576	
(Increase) Decrease in accrued vacation pay				4,851	
(Increase) Decrease in deferred inflows of resources-pensions				2,352	
(Increase) Decrease in deferred inflows of resources-OPEB				(6,990)	
(Increase) Decrease in accrued postemployment benefits				3,914	
(Increase) Decrease in accrued interest				29	
Depreciation				(194,875)	
Total reconciling items				<u>(99,886)</u>	
Change in Net Position				<u>\$ (46,355)</u>	

Town of Haw River, North Carolina
Lang Street Project Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
From Inception and for the fiscal year ended June 30, 2018

	Project Authorization	Actual		Total to	Variance Positive
		Prior	Current		
Revenues- Sewer					
NC DENR grant	\$ -	\$ -	\$ -	\$ -	\$ -
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures- Sewer					
Engineering	140,000	-	33,486	33,486	106,514
Construction Administration	110,000	-	-	-	110,000
Permitting	5,000	-	-	-	5,000
Reimbursable Expenses	5,000	-	-	-	5,000
Grant/Loan Admin	30,000	-	-	-	30,000
Total	<u>290,000</u>	<u>-</u>	<u>33,486</u>	<u>33,486</u>	<u>256,514</u>
Revenues under expenditures	<u>(290,000)</u>	<u>-</u>	<u>(33,486)</u>	<u>(33,486)</u>	<u>(256,514)</u>
Other Financing Sources					
Transfer from Water/Sewer	-	-	-	-	-
Debt proceeds	290,000	-	-	-	290,000
Total	<u>290,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>290,000</u>
Revenues over expenditures and other financing sources	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (33,486)</u>	<u>\$ (33,486)</u>	<u>\$ 33,486</u>

Town of Haw River, North Carolina
Stormwater Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2018

	Budget	Actual	Variance Positive (Negative)
Operating revenues			
Stormwater fees	\$ 22,700	\$ 23,220	\$ 520
Total operating revenues	<u>22,700</u>	<u>23,220</u>	<u>520</u>
Total revenues	<u>22,700</u>	<u>23,220</u>	<u>520</u>
Expenditures:			
Stormwater expenditures	<u>22,700</u>	<u>12,496</u>	<u>10,204</u>
Total expenditures	<u>22,700</u>	<u>12,496</u>	<u>10,204</u>
Revenues over (under) expenditures	<u>\$ -</u>	<u>\$ 10,724</u>	<u>\$ 10,724</u>

Other Schedules

This section includes additional information on property taxes.

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

Town of Haw River, North Carolina
Analysis of Current Tax Levy
Town Wide Levy
For the Fiscal Year Ended June 30, 2018

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	\$ 146,548,837	0.48	\$ 703,434	\$ 627,853	\$ 75,581
Abatements	(320,417)		(1,538)	(1,538)	-
Total Property Valuation	<u>\$ 146,228,420</u>		<u>701,896</u>	<u>626,315</u>	<u>75,581</u>
Uncollected taxes at June 30, 2018			<u>8,992</u>	<u>8,944</u>	<u>48</u>
Current year's taxes collected			<u>\$ 692,904</u>	<u>\$ 617,371</u>	<u>\$ 75,533</u>
Current levy collection percentage			98.72%	98.57%	99.94%

Compliance Section

Winston, Williams, Creech, Evans, & Company, LLP

Certified Public Accountants



America Counts on CPAs

Gary L. Williams, CPA
Carleen P. Evans, CPA
Jennifer T. Reese, CPA
Tara H. Roberson, CPA

Curtis G. Van Horne, CPA

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 Town Council
Town of Haw River, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the Town of Haw River, North Carolina as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprises the Town of Haw River's basic financial statements, and have issued our report thereon dated June 26, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Haw River's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Haw River'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 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 internal control was for limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses. 18-1, 18-2, and 18-3 are findings that we consider to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Haw River's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 18-2 and 18-3.

Town of Haw River's Response to Findings

The Town of Haw River's response 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.

Winston, Williams, Creech, Evans & Company, LLP

Winston, Williams, Creech, Evans & Company, LLP
Certified Public Accountants
Oxford, North Carolina
June 26, 2019

**TOWN OF HAW RIVER, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Section I. Summary of Auditor's Results

Financial Statements

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

Internal control over financial reporting:

Material weakness(es) identified?	<u> X </u> Yes	<u> </u> No
Significant deficiency(ies)	<u> </u> Yes	<u> X </u> None reported
Noncompliance material to financial statements noted	<u> X </u> Yes	<u> </u> No

Section II. Financial Statement Findings

Material Weakness

18-1 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 and not be detected.

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, 16-1.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of segregation of duties. 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 provide additional oversight and adhere to the corrective action plan.

**TOWN OF HAW RIVER, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

Material Weakness/Material Noncompliance

18-2 Excess of Expenditures Over Appropriation

Criteria: G.S. 159-8(a) states that monies received and expended by a local government or public authority should be included in the budget ordinance.

Condition: The Town of Haw River expended funds in various departments for a total of \$186,199 before budget amendments had been approved.

Effect: Expenditures were spent during the fiscal year before the appropriation was approved.

Cause: There was a lack of review of routine transactions and of the budget implications and amendments. The staff made additional budget amendments but did not get approval until after yearend which was after the money was expended.

Recommendation: The finance officer should review all funds and their budgets to ensure that all expenditures are within budgetary limits. Budget amendments should all be approved by the end of the fiscal year.

Views of Responsible officials and planned corrective action: The Town agrees with the finding. The Town will be more attentive to budget line items and approve budget amendments in a more timely manner.

Material Weakness/Material Noncompliance

18-3 Untimely Delivery of Financial Records

Criteria: G.S. 159-34(a) states that the Town should produce all books and records requested by the auditor and divulge such information relating to fiscal affairs as requested by the auditor.

Condition: The Town of Haw River did not have bank accounts reconciled upon initial visit by the auditor.

Effect: The books were not ready to be audited upon arrival of the auditors. There were bank reconciliations that had not been completed as well as payroll entries that had not been booked.

Cause: There was a turnover in two key staff members which caused reconciliations to get behind. New staff was hired but they had no training upon arrival so knowledge was limited about the items that needed to be fixed.

Recommendation: Staff should keep bank reconciliations up to date and review financial statement accounts to ensure cleanup before arrival of the auditors.

Views of Responsible officials and planned corrective action: The Town agrees with the finding. The Town has hired knowledgeable staff to keep financial records up to date.

**TOWN OF HAW RIVER, NORTH CAROLINA
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2018**

Section II - Financial Statement Finding:

Findi 18-1

Name of contact person: Sean Tencer, Town Manager

Corrective Action: The duties will be separated as much as possible and alternative controls will be used to compensate for lack of segregation. The Town Manager plans to cross-train employees in order to better segregate some of these duties.

Proposed Completion Date: Immediately.

Findi 18-2

Name of contact person: Sean Tencer, Town Manager

Corrective Action: The Town will strive in the future to better anticipate the expenditures in these funds. All expenditures will be monitored more closely in the future to ensure budget amendments are made timely for additional expenditures.

Proposed Completion Date: June 30, 2019

Findi 18-3

Name of contact person: Sean Tencer, Town Manager

Corrective Action: The Town has hired additional staff to assist in reconciling accounts and maintaining reviews of account balances and activity on a routine basis to ensure timely delivery of future financial records. Additionally, staff have had time to learn accounts and put processes in place and recommend changes as needed to ensure future success.

Preposed Completion Date: June 30, 2019

**TOWN OF HAW RIVER, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

Finding: 17-1

Status: Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of separation. The governing board is becoming more involved in providing some of these controls.

Finding: 16-1

Status: Duties are being separated as much as possible and alternative controls are being implemented to compensate for lack of separation. The governing board is becoming more involved in providing some of these controls.