

TOWN OF HUDSON, NORTH CAROLINA

Basic Financial Section





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TOWN OF HUDSON

Exhibit A

**Statement of Net Position
June 30, 2019**

	Primary Government	
	Governmental Activities	Total
Assets		
Current assets:		
Cash and investments	\$ 1,499,521	\$ 1,499,521
Taxes receivable (net)	75,571	75,571
Intergovernmental receivable (net)	255,494	255,494
Other receivables	33,663	33,663
Prepaid items	7,927	7,927
Restricted cash	226,867	226,867
Total current assets	<u>2,099,043</u>	<u>2,099,043</u>
Noncurrent assets:		
Capital assets:		
Land and construction in progress, non-depreciable	413,071	413,071
Other capital assets, net of depreciation	3,289,581	3,289,581
Total capital assets	<u>3,702,652</u>	<u>3,702,652</u>
Total assets	<u>5,801,695</u>	<u>5,801,695</u>
Deferred Outflows of Resources		
Contributions to pension plan in current fiscal year	98,584	98,584
Pension deferrals	276,878	276,878
Total deferred outflows of resources	<u>375,462</u>	<u>375,462</u>
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	113,984	113,984
Prepaid fees	4,525	4,525
Current portion of long-term liabilities	89,065	89,065
Total current liabilities	<u>207,574</u>	<u>207,574</u>
Long-term liabilities:		
Net pension liability (LGERS)	385,031	385,031
Total pension liability (LEOSSA)	306,896	306,896
Due in more than one year	213,294	213,294
Total long-term liabilities	<u>905,221</u>	<u>905,221</u>
Total liabilities	<u>1,112,795</u>	<u>1,112,795</u>
Deferred Inflows of Resources		
Pension deferrals	18,899	18,899
Prepaid taxes	2,475	2,475
Total deferred inflows of resources	<u>21,374</u>	<u>21,374</u>
Net Position		
Net investment in capital assets	3,519,289	3,519,289
Restricted for:		
Stabilization for state statute	266,593	266,593
Streets	226,867	226,867
Unrestricted	1,030,239	1,030,239
Total net position	<u>\$ 5,042,988</u>	<u>\$ 5,042,988</u>

TOWN OF HUDSON

Exhibit B

**Statement of Activities
For the Year Ended June 30, 2019**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position Primary Government</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Total</u>
Primary government:						
Governmental Activities:						
General government	\$ 688,139	\$ 61,675	\$ -	\$ -	\$ (626,464)	\$ (626,464)
Public safety	987,330	1,210	162,949	-	(823,171)	(823,171)
Street and public works	574,540	-	-	119,464	(455,076)	(455,076)
Environmental protection	130,691	132,607	-	-	1,916	1,916
Cultural and recreational	449,508	183,524	-	-	(265,984)	(265,984)
Economic and physical development	259,929	19,202	28,355	-	(212,372)	(212,372)
Interest in long-term debt	1,991	-	-	-	(1,991)	(1,991)
Total government activities	3,092,128	398,218	191,304	119,464	(2,383,142)	(2,383,142)
Total primary government	\$ 3,092,128	\$ 398,218	\$ 191,304	\$ 119,464	(2,383,142)	(2,383,142)
General revenues:						
Taxes:						
Ad valorem taxes					1,331,383	1,331,383
Local option sales tax					660,092	660,092
Franchise tax					217,680	217,680
Other taxes					290,259	290,259
Interest earned on investments					31,539	31,539
Total general revenues					2,530,953	2,530,953
Change in net position					147,811	147,811
Net Position:						
Beginning of year - July 1					4,895,177	4,895,177
End of year - June 30					\$ 5,042,988	\$ 5,042,988

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

TOWN OF HUDSON

Exhibit C

**Balance Sheet
Governmental Funds
June 30, 2019**

	<u>Major Fund</u> General Fund	<u>Capital Improvement Capital Project Fund</u>	<u>Total Governmental Funds</u>
<u>Assets</u>			
Current assets:			
Cash and investments	\$ 1,466,272	\$ 33,249	\$ 1,499,521
Taxes receivable, net	75,571	-	75,571
Due from other governments	255,494	-	255,494
Other receivables	33,100	563	33,663
Prepaid items	7,927	-	7,927
Restricted cash	226,867	-	226,867
Total assets	<u>\$ 2,065,231</u>	<u>\$ 33,812</u>	<u>\$ 2,099,043</u>
<u>Liabilities, Deferred Inflows of Resources and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued expenses	\$ 113,749	\$ 235	\$ 113,984
Prepaid fees	4,525	-	4,525
Total liabilities	<u>118,274</u>	<u>235</u>	<u>118,509</u>
Deferred inflows of resources:			
Property taxes receivable	75,571	-	75,571
Other receivables	19,526	-	19,526
Prepaid taxes	2,475	-	2,475
Total deferred inflows of resources	<u>97,572</u>	<u>-</u>	<u>97,572</u>
Fund balances:			
Non-spendable:			
Prepaid items	7,927	-	7,927
Restricted:			
Stabilization for State Statute	266,593	-	266,593
Streets	226,867	-	226,867
Assigned	273,645	33,577	307,222
Unassigned	1,074,353	-	1,074,353
Total fund balances	<u>1,849,385</u>	<u>33,577</u>	<u>1,882,962</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,065,231</u>	<u>\$ 33,812</u>	<u>\$ 2,099,043</u>

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

TOWN OF HUDSON

Exhibit D

**Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
June 30, 2019**

Total fund balances, governmental fund	\$ 1,882,962
 Amounts reported for governmental activities in the statement of net position (Exhibit 1) are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,702,652
Pension liabilities (LGERS & LEOSSA)	(691,927)
Deferred outflows of resources related to pensions are not reported in the funds.	375,462
Long-term liabilities and compensated absences are not due and payable in the current period and, therefore, are not reported in the funds.	(302,359)
Deferred inflows in the governmental funds are used to offset accounts receivable not expected to be available within 60 days of year-end. These receivables are a component of net position in the Statement of Net Position.	95,097
Pension related deferrals	<u>(18,899)</u>
Net position of governmental activities	<u>\$ 5,042,988</u>

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

TOWN OF HUDSON

Exhibit E

**Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year ended June 30,2019**

	<u>Major Fund</u> <u>General</u> <u>Fund</u>	<u>Capital</u> <u>Improvement</u> <u>Capital</u> <u>Project Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues:			
Ad valorem taxes	\$ 1,331,383	\$ -	\$ 1,331,383
Other taxes and licenses	895,591	-	895,591
Unrestricted intergovernmental	272,440	-	272,440
Restricted intergovernmental	282,413	-	282,413
Permits and fees	136,591	-	136,591
Sales and services	242,425	19,202	261,627
Donations	-	28,355	28,355
Investment earnings	31,539	-	31,539
Total revenues	<u>3,192,382</u>	<u>47,557</u>	<u>3,239,939</u>
Expenditures:			
Current:			
General government	567,941	-	567,941
Public safety	1,177,373	-	1,177,373
Street and public works	562,416	-	562,416
Environmental protection	130,691	-	130,691
Cultural and recreational	419,919	-	419,919
Economic and physical development	352,581	-	352,581
HUB station	-	13,980	13,980
Debt service:			
Principal	66,068	-	66,068
Interest	1,991	-	1,991
Total expenditures	<u>3,278,980</u>	<u>13,980</u>	<u>3,292,960</u>
Revenues over (under) expenditures	<u>(86,598)</u>	<u>33,577</u>	<u>(53,021)</u>
Other Financing Sources (Uses):			
Proceeds from installment note and capital lease	126,989	-	126,989
Sales of fixed assets	14,937	-	14,937
Transfer to other funds	-	-	-
Fund balance appropriated	-	-	-
Total other financing sources (uses)	<u>141,926</u>	<u>-</u>	<u>141,926</u>
Net change in fund balances	55,329	33,577	88,906
Fund Balances:			
Beginning of year - July 1	<u>1,794,056</u>	<u>-</u>	<u>1,794,056</u>
End of year - June 30	<u>\$ 1,849,385</u>	<u>\$ 33,577</u>	<u>\$ 1,882,962</u>

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

TOWN OF HUDSON

Exhibit F

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2019**

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

Net changes in fund balances - total governmental funds	\$ 88,906
Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental fund statement.	
Change in unavailable revenues for tax revenues	(4,882)
Other	1,659
Expenses related to compensated absences and the Law Enforcement Officers Separation Allowance that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(15,879)
Change in deferred outflow - pension	112,045
Change in deferred inflows - pension	6,638
Change in net pension liability	(134,803)
The issuance of long-term debt provides current financial resources to governmental funds. The transaction does not have an effect on net position.	(220,993)
Debt principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	66,068
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	492,297
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	<u>(243,245)</u>
Total changes in net position of governmental activities	<u>\$ 147,811</u>

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

TOWN OF HUDSON

Exhibit G

**General Fund
Statement of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual
For the Year Ended June 30, 2019**

	<u>Budgeted Amount</u>		<u>Actual</u>	Variance With Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>		
Revenues:				
Ad valorem taxes	\$ 1,251,500	\$ 1,251,500	\$ 1,331,383	\$ 79,883
Other taxes and licenses	886,000	886,000	895,591	9,591
Unrestricted intergovernmental	266,800	267,100	272,440	5,340
Restricted intergovernmental	284,500	284,500	282,413	(2,087)
Permits and fees	134,500	166,065	136,591	(29,474)
Sales and services	240,400	260,400	242,425	(17,975)
Investment earnings	-	6,000	31,539	25,539
Total revenues	<u>3,063,700</u>	<u>3,121,565</u>	<u>3,192,382</u>	<u>70,817</u>
Expenditures:				
Current:				
General government	624,548	635,706	567,941	67,765
Public safety	1,154,081	1,238,697	1,177,373	61,324
Street and public works	511,392	606,889	562,416	44,473
Environmental protection	134,120	134,120	130,691	3,429
Cultural and recreational	447,338	472,398	419,919	52,479
Economic and physical development	288,959	424,774	352,581	72,193
Contingency	55,262	11,521	-	11,521
Debt service:				-
Principal retirement	-	66,068	66,068	-
Interest and fees	-	1,991	1,991	-
Total expenditures	<u>3,215,700</u>	<u>3,592,164</u>	<u>3,278,980</u>	<u>313,184</u>
Revenues over (under) expenditures	<u>(152,000)</u>	<u>(470,599)</u>	<u>(86,598)</u>	<u>384,001</u>
Other Financing Sources (Uses):				
Proceeds from installment note and capital lease	-	126,989	126,989	-
Sale of fixed assets	-	10,550	14,937	4,387
Fund balance appropriated	152,000	333,060	-	(333,060)
Total other financing sources (uses)	<u>152,000</u>	<u>470,599</u>	<u>141,926</u>	<u>(328,673)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	55,329	<u>\$ 55,329</u>
Fund Balance:				
Beginning of year - July 1			<u>1,794,056</u>	
End of year - June 30			<u>\$ 1,849,385</u>	

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

TOWN OF HUDSON

Notes to the Financial Statements For the Year Ended June 30, 2019

I. Summary of Significant Accounting Policies

The accounting policies of Town of Hudson, North Carolina conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies.

A. Reporting Entity

The Town of Hudson, North Carolina is a municipal corporation that is governed by an elected Mayor and a six-member Board of Commissioners.

B. Basis of Presentation

Government-Wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements report the *governmental activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Interfund services provided and used are not eliminated in the process of consolidation. 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. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

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 state-shared revenues. The primary expenditures are public safety, street maintenance and construction, sanitation service, parks and recreation, and general governmental services.

The Town reports the following non-major governmental fund:

Capital Project Campaign HUB Station - This fund is used to account for the construction of the Hudson Uptown Building facility.

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 Fund Financial Statements: The government-wide fund financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. 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 in which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Governmental Fund Financial Statements - Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, 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 60 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013, and for the limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the State at the year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Hudson because the tax is levied by Caldwell County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied.

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 the program

expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. Significant areas where estimates are made are allowance for doubtful accounts and depreciation lives.

E. 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. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for multi-year funds. The Town Manager is authorized to transfer appropriations between departments up to \$5,000; however, any revisions that alter the total expenditures of any department or fund by greater than \$5,000 must be previously approved by the governing board. The Board must be notified of transfers of appropriations of less than \$5,000 at the next scheduled Board meeting.

F. 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. Nonparticipating interest-earning investments contracts are accounted for at cost. The securities of the NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized costs, which is 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, in the General Fund, are classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

Town of Hudson Restricted Cash

Governmental activities:

General Fund:

Streets

\$ 226,867

Total restricted cash

\$ 226,867

4. Ad Valorem Taxes Receivable

In accordance with State Law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values of January 1, 2018. 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. Prepaid Items

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

7. Capital Assets

Capital assets are recorded at original cost. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. Also, the Town has elected not to capitalize those interest costs that are incurred during the construction period of general capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Certain items are recorded at an estimated original cost. The total of such estimates is not considered large enough that the errors would be material when capital assets are considered as a whole.

In conjunction with implementing GASB 34, "The New Reporting Model," the Town began capitalizing public domain ("infrastructure") capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems as of July 1, 2003. Infrastructure assets exceeding the Town's capitalization threshold of \$1,000 will be reported as capital assets in the Statement of Net Position. General governmental infrastructure assets acquired prior to July 1, 2003 were not retroactively reported; therefore, the infrastructure capital assets in the Statement of Net Position only include assets purchased after July 1, 2003.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
General governmental infrastructure - road network	45 years
General governmental infrastructure - bridges	50 years
Buildings	40 years
Other improvements	10 - 40 years
Equipment and vehicles	3 - 10 years

8. Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net 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 has two items that meet this criterion: contributions made to the pension plan in the 2019 fiscal year and pension related to deferrals. In addition to liabilities, the Statement of Net 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 several items that meets the criteria for this category: prepaid taxes, property taxes receivable, other receivables, and pension deferrals.

9. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities.

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.

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide 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 compensation time. The portion of that time 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 has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Prepaid Items - portion of fund balance that is not an available resource because it represents the year-end balance of prepaid items, which are not spendable resources.

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

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

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

Committed Fund Balance - The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the government's highest level of decision-making authority. The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned Fund Balance - Assigned fund balance is the portion of fund balance that the Town of Hudson intends to use for specific purposes. The Town's governing body has the authority to assign fund balance. The Manager/Finance Officer, as granted in the officially adopted budget ordinance, has been granted limited authority to assign fund balance.

Assigned for HUB Station - portion of fund balance that has been budgeted by the Board for construction of the Hudson Uptown Building facility.

Assigned for 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 make certain modifications without requiring board approval.

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

The Town of Hudson has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: debt 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 or when required by grant or other contractual agreements.

The Town has not officially adopted a fund balance policy.

12. Pensions

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

II. Stewardship, Compliance, and Accountability

None noted.

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 this unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their 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 State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit 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 provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$563,458, and a bank balance of \$701,291. Of the bank balance, \$351,306 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2019, the Town's petty cash fund totaled \$1,485.

2. Investments

At June 30, 2019, the Town of Hudson had \$1,161,445 invested with the North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAM by Standard and Poor's.

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.

3. Receivables - Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2019 are net of the following allowances for doubtful accounts:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due from Other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 33,100	\$ 188,928	\$ 255,494	\$ 477,522
Allowance for doubtful accounts	-	(113,357)	-	(113,357)
Total governmental activities	<u>\$ 33,100</u>	<u>\$ 75,571</u>	<u>\$ 255,494</u>	<u>\$ 364,165</u>

Due from other governments consisted of the following:

Local option sales tax	\$ 156,519
Sales tax	19,919
NCDMV	12,656
Franchise tax	<u>66,400</u>
Total	<u>\$ 255,494</u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2019 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 413,071	\$ -	\$ -	\$ 413,071
Total capital assets not being depreciated	<u>413,071</u>	<u>-</u>	<u>-</u>	<u>413,071</u>
Capital assets being depreciated:				
Land improvements	936,536	-	-	936,536
Buildings	3,218,369	306,993	-	3,525,362
Furniture and fixtures	307,921	1,590	(4,847)	304,664
Equipment and vehicles	<u>1,507,924</u>	<u>183,714</u>	<u>(167,641)</u>	<u>1,523,997</u>
Total capital assets being depreciated	<u>5,970,750</u>	<u>492,297</u>	<u>(172,488)</u>	<u>6,290,559</u>
Less accumulated depreciation for:				
Land improvements	(439,451)	(38,111)	-	(477,562)
Building	(1,097,762)	(91,983)	-	(1,189,745)
Furniture and fixtures	(252,600)	(6,712)	4,847	(254,465)
Equipment and vehicles	<u>(1,140,408)</u>	<u>(106,439)</u>	<u>167,641</u>	<u>(1,079,206)</u>
Total accumulated depreciation	<u>(2,930,221)</u>	<u>(243,245)</u>	<u>172,488</u>	<u>(3,000,978)</u>
Total capital assets being depreciated, net	<u>3,040,529</u>	<u>249,052</u>	<u>-</u>	<u>3,289,581</u>
Governmental activity capital assets, net	<u>\$3,453,600</u>	<u>\$ 249,052</u>	<u>\$ -</u>	<u>\$3,702,652</u>

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

Governmental Activities:	
General government	\$ 77,838
Public safety	53,514
Public works	38,919
Culture and recreation	<u>72,974</u>
Total depreciation expense	<u>\$243,245</u>

B. Liabilities

1. Payables

Payables at June 30, 2019 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
Governmental Activities:			
General	<u>\$ 49,696</u>	<u>\$ 64,288</u>	<u>\$113,984</u>

2. Pension Plan and Post-employment Obligations

a. Local Government Employees' Retirement System

Plan Description: The Town is a participating employer in the state-wide 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 government 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 LGERS 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 a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions: Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Hudson employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2019 was 8.5% of compensation for law enforcement officers and 7.75% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$114,727 for the year ended June 30, 2019.

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, 2019, the Town reported a liability of \$385,031 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town's proportion was 0.01623%, which was an increase of 0.00061% from its portion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$114,727. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actuarial experience	\$ 59,401	\$ 1,993
Changes of assumptions	102,172	-
Net difference between projected and actual earning on pension plan investments	52,853	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	24,735	1,035
Town contributions subsequent to the measurement date	<u>98,584</u>	<u>-</u>
Total	<u>\$ 337,745</u>	<u>\$ 3,028</u>

\$98,584 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred inflows or outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2020	\$ 73,539
2021	19,300
2022	33,635
2023	-
Thereafter	<u>-</u>
	<u>\$ 126,474</u>

Actuarial Assumptions: The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increase	3.50% to 8.10%, including inflation and productivity factor
Investment rate of return	7.20%, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study of the period ending 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, 2018 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%
Total	<u>100%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2018 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculation from nominal rates 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 contribution 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 member. Therefore, the long-term expected rate of return on pension plan investments was applied to all period of projected benefits payments to determine the total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate: The following presents the Town's proportionate share of the net pension liability (asset) calculated using the discount rate of 7.00%, 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 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	1% Decrease <u>(6.00%)</u>	Discount Rate <u>(7.00%)</u>	1% Increase <u>(8.00%)</u>
Town's proportionate share of the net pension liability (asset)	\$924,878	\$385,031	\$(66,073)

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

Plan Description: The Town administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns that 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, 2017, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>13</u>
Total	<u>15</u>

A separate report was not issued for the plan

Summary of Significant Accounting Policies

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

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

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

Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2017 valuation. The total pension liability was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50%
Salary increase	3.50% to 7.35%, including inflation and productivity factor
Discount rate	3.64%

The discount rate used to measure the TPL is the S&P Municipal Bond 20 Year High Grade Rate Index.

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an experience study completed by the Actuary for the Local Government Employees' Retirement System for the five year period ended December 31, 2014.

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

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

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

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

Contributions: The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operation budget. There were no contributions made by the employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$22,808 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, 2019, the Town reported a total pension liability of \$306,896. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$29,077.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actuarial experience	\$ 11,533	\$ 3,763
Changes of assumptions	11,249	12,108
Town benefit payments and plan administrative expenses made subsequent to the measurement date	<u>14,935</u>	<u>-</u>
Total	<u>\$ 37,717</u>	<u>\$ 15,871</u>

\$14,935 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources and will be recognized as a decrease of the total pension liability in the year ending June 30, 2020. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30</u>	<u>Amount</u>
2020	\$ 1,976
2021	1,976
2022	1,976
2023	2,527
2024	(1,314)
Thereafter	<u>(230)</u>
Total	<u>\$ 6,911</u>

Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate: The following presents the Town's total pension liability calculated using the discount rate of 3.64%, 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 (2.64%) or 1-percentage-point higher (4.64%) than the current:

	1% Decrease (<u>2.64%</u>)	Discount Rate (<u>3.64%</u>)	1% Increase (<u>4.64%</u>)
Town's proportionate share of the net pension liability (asset)	<u>\$330,481</u>	<u>\$306,896</u>	<u>\$285,482</u>

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

	<u>2019</u>
Beginning balance	\$ 318,494
Service cost	17,048
Interest on the total pension liability	9,704
Differences between expected and actual experience	(4,502)
Changes of assumptions or other inputs	(11,040)
Benefit payments	<u>(22,808)</u>
Ending balance of the total pension liability	<u>\$306,896</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, 2017 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 expense for all pension plans:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension Expense	\$114,727	\$ 29,077	\$143,804
Pension Liability	385,031	306,896	691,927
Proportionate share of the net pension liability	0.01623%	N/A	

Deferred of Outflows of Resources:

Difference between expected and actual experience	59,401	11,533	70,934
Change in assumptions	102,172	11,249	113,421
Net difference between projected and actual earnings on plan investments	52,853	-	52,853
Change in proportion and differences between contributions and proportionate share of contributions	24,735	-	24,735
Benefit payments and administrative cost paid subsequent to measurement date	98,584	14,935	113,519

Deferred of Inflows of Resources:

Difference between expected and actual experience	1,993	3,763	5,756
Change in assumptions	-	12,108	12,108
Change in proportion and differences between contributions and proportionate share of contributions	1,035	-	1,035

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 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 Serve Center, Raleigh, North Carolina 27699-1410, or by calling 919-981-5454.

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

The Town elects to contribute 3% of employees' salaries not engaged in law enforcement. Contributions for the year ended June 30, 2019 were \$65,640, which consisted of \$28,488 from the Town for law enforcement, \$19,157 from the Town for general employees, \$10,640 from the law enforcement officers, and \$7,355 from the general employees.

d. Other Employment Benefits

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

3. **Deferred Outflows and Inflows of Resources**

Deferred outflows of resources at year-end are comprised of the following:

	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 98,584
Benefit payments made and administration expenses for LEOSSA	14,935
Differences between expected and actual experience	70,934
Changes of assumptions	113,421
Net difference between expected and actual experience	52,853
Changes of assumptions	<u>24,735</u>
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>\$375,462</u>

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

	<u>Statement of Net Position</u>	<u>Fund Balance Sheet</u>
Other receivables	\$ -	\$ 19,526
Prepaid taxes	2,475	2,475
Taxes receivable, less penalties	-	75,571
Changes in assumptions (LEOSSA)	12,108	-
Differences between expected and actual experience (LGERS)	1993	-
Differences between expected and actual experience (LEOSSA)	3,763	-
Changes in proportion and differences between employer contributions and proportionate share of contributions (LGERS)	<u>1,035</u>	<u>-</u>
	<u>\$ 21,374</u>	<u>\$ 97,572</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 carries commercial coverage for all risks of loss. The Town of Hudson has entered into an insurance contract with "A" rated insurance carrier Argonaut Insurance for the property and liability risks. The risk of injury to employees has been transferred likewise to "A+" rated insurance carrier BITCO Insurance Company. Automobile liability, law enforcement liability, employment practices liability, public officials liability, and general liability each are insured up to \$2,000,000. Additionally, the Town carries an umbrella liability of \$1,000,000. Property coverage for all building and personal property is in excess of \$7.5 million. Workers' compensation coverage of loss limits are the limits established by North Carolina General Statutes as set forth in North Carolina G.S. 97-31. Employee health insurance is provided by commercial coverage with United Healthcare with an unlimited Lifetime Maximum Benefit.

There have been no significant reductions in insurance coverage from the previous year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town is located in an area of the state mapped and designated "Zone A" by the Federal Emergency Management Agency and, thus, the Town has elected not to carry specific flood insurance coverage. Although the Town does not have any structures in the designated "A" areas, the current policy provides \$1,000,000 flood coverage as part of the package of coverage.

In accordance with North Carolina 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 bonded for \$50,000 and tax collector is bonded for \$10,000. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

5. Long-Term Obligations

a. Capital Lease

The Town entered into several capital leases for the purchase of police patrol vehicles. The lease agreements qualify as a capital lease for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of its inception.

The first capital lease was executed on May 22, 2018 and requires three annual lease payments of \$15,729. The title will pass to the Town at the end of the lease term during the 2019-2020 fiscal year. The second capital lease was executed April 5, 2019 and requires three annual lease payments of \$42,330. The title will pass to the Town at the end of the lease term during the 2020-2021 fiscal year.

The following is an analysis of the assets recorded under capital leases at June 30, 2019:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Vehicles	<u>\$171,156</u>	<u>\$15,919</u>	<u>\$155,237</u>

The future minimum lease obligations and net present value of these minimum lease payments as of June 30, 2019 were as follows:

<u>Year Ending June 30</u>	<u>Principal</u>
2020	\$ 58,058
2021	<u>42,330</u>
Total minimum lease payments	100,388
Less: amount representing interest	<u>(7,025)</u>
Present value of the minimum lease payments	<u>\$ 93,363</u>

b. Direct Borrowing Installment Purchase

In July, 2018, the Town entered into a \$100,000 direct borrowing installment purchase for a building. The financing contract requires principal payments beginning in the fiscal year 2018 with no interest. Annual debt service payments of the installment purchase as of June 30, 2019 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2020	\$10,000	\$ -
2021	10,000	-
2022	10,000	-
2023	10,000	-
2024	10,000	-
2024-2028	<u>40,000</u>	<u>-</u>
Total	<u>\$90,000</u>	<u>\$ -</u>

A summary of changes in long-term obligations follows:

	<u>Balance July 1, 2018</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2019</u>	<u>Current Portion</u>
Governmental Activities:					
Capital leases	\$ 28,438	\$ 120,993	\$ 56,068	\$ 93,363	\$ 53,065
Installment purchase from direct borrowing	-	100,000	10,000	90,000	10,000
Net pension liability (LGERS)	238,630	146,401	-	385,031	-
Total pension liability (LEOSSA)	318,494	-	11,598	306,896	-
Accrued vacation pay	<u>103,117</u>	<u>15,879</u>	<u>-</u>	<u>118,996</u>	<u>26,000</u>
Total	<u>\$688,679</u>	<u>\$383,273</u>	<u>\$ 77,666</u>	<u>\$994,286</u>	<u>\$ 89,065</u>

Compensated absences and net pension obligation typically have been liquidated in the General Fund. Compensated absences are accounted for on an FIFO basis, assuming that employees are taking leave time as it is earned.

At June 30, 2019, the Town had a legal debt margin of approximately \$22,879,269.

6. Net Investment in Capital Assets

	Governmental Activities
Capital assets	\$ 3,702,652
Less: long-term debt	(183,363)
Add: unexpended debt proceeds	<u>-</u>
Net investment in capital asset	<u>\$ 3,519,289</u>

7. Fund Balance

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

Total fund balance - General Fund	<u>\$1,849,385</u>
Less:	
Prepaid items	7,927
Stabilization by State Statute	266,593
Streets - Powell Bill	226,867
Appropriated Fund balance in 2020 budget	273,645
Remaining Fund Balance	1,074,353

IV. Jointly Governed Organization

The Town, in conjunction with four counties and 23 municipalities established the Western Piedmont 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 \$2,366 for membership fees and \$44,902 for administrative services during the fiscal year ended June 30, 2019.

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

VI. Significant Effects of Subsequent Events

Management has evaluated subsequent events through October 28, 2019, the date on which the financial statements were available to be issued. During the period from the end of the year and through this date, no circumstances occurred that require recognition or disclosure in these financial statements.



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