

**Town of Pembroke, North Carolina**

**Financial Statements**

**For the Year Ended  
June 30, 2018**

**Town of Pembroke, North Carolina**

**Financial Statements**

**For the Year Ended  
June 30, 2018**

**Board of Town Commissioners**

**C. Gregory Cummings, Mayor**

**Channing Jones**

**Theresa Locklear**

**Larry McNeill**

**Ryan Sampson**

**\*\*\*\*\***

**Tyler Thomas, Town Manager**

**Marie Moore, Finance Officer**

**Town of Pembroke, North Carolina**  
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**June 30, 2018**

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## **Financial Section**

# S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

## MEMBERS

American Institute of CPAs

N. C. Association of CPAs

### Independent Auditor's Report

To the Honorable Mayor and  
Board of Town Commissioners  
Town of Pembroke, North Carolina

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Pembroke, 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. The financial statements of the Pembroke ABC Board and Pembroke Tourism Development Authority were not audited in accordance with Government Auditing Standards.

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

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

## ***Opinions***

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

## ***Other Matters***

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

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

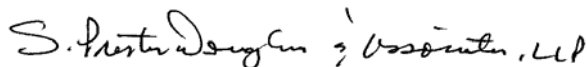
### ***Supplementary and other Information***

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

The combining and individual fund financial statements, budgetary schedules, and other schedules, are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules, other schedules, and the schedule of expenditures of federal and state awards are fairly stated in, all material respects, in relation to the basic financial statements as a whole.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 12, 2018 on our consideration of the Town of Pembroke's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Pembroke's internal control over financial reporting and compliance.

 S. Preston Douglas, Associate, LLP

Lumberton, North Carolina  
November 12, 2018

**Town of Pembroke, North Carolina**  
**Management's Discussion and Analysis**  
**June 30, 2018**

**Management's Discussion and Analysis**

As management of the Town of Pembroke, North Carolina, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Pembroke for the fiscal year ending June 30, 2018.

**Financial Highlights**

The assets and deferred outflows of resources of the Town of Pembroke exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$17,869,731 (*net position*).

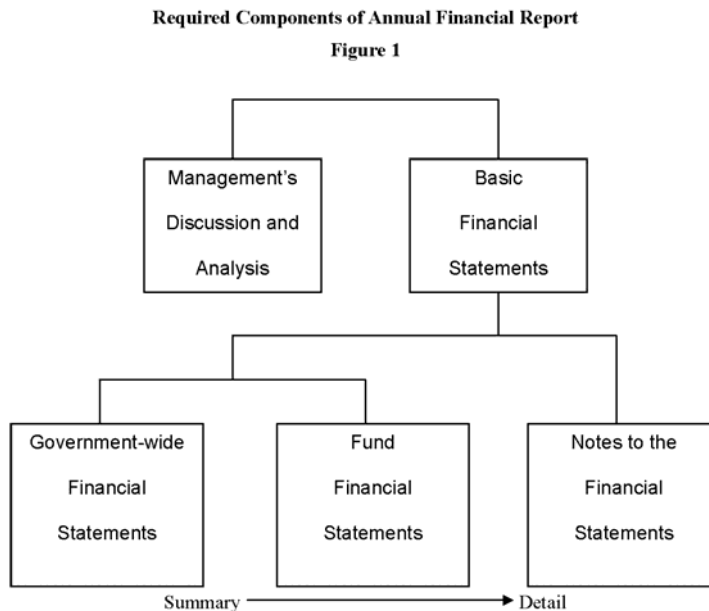
The government's total net position increased by \$614,806. The increase is primarily attributed to grant income and positive operating results.

As of the close of the current fiscal year, the Town's governmental funds reported a combined ending fund balance of \$1,556,109.

At the end of the current fiscal year, unassigned portion of fund balance for the general fund was \$1,193,517, or 37.18% of total general fund expenditures for the fiscal year.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the Town of Pembroke's basic financial statements. The Town's basic financial statements comprise 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 also contains other supplementary information that will enhance the reader's understanding of the financial condition of the Town of Pembroke.



**Financial Statements**

The first two statements 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 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.



**Town of Pembroke, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2018**

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 to the Financial Statements**. The notes explain in detail some of the data contained in those statements. After the notes, additional information is provided to show details about the Town's individual funds. Budgetary information required by the N.C. General Statutes can also be found in this part of the statements.

**Government-wide Financial Statements.** The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, in a manner similar to the 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 three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the Town's basic services such as general government, public safety, highways/streets, sanitation, economic development, culture and recreation, and debt service. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. This includes the water and sewer services offered by the Town of Pembroke. The final category is the component units. Although legally separate from the Town, the ABC Board is important to the Town because the Town exercises control over the Board by appointing its members, and because the Board is required to distribute a portion of its profits to the Town. The other component unit is the Pembroke Tourism Development Authority. Again, the Town exercises control over the TDA by appointing its members and enforcing the collection of hotel occupancy taxes used to fund operations of same.

The government-wide financial statements can be found on pages 9 and 10 of this report.

**Fund financial statements.** The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Pembroke, like other state and local governments, 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 essentially the same 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 monies that are unexpended at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Pembroke adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document.

**Town of Pembroke, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2018**

**Basic Financial Statements (continued)**

**Governmental funds (continued).** The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

**Proprietary funds.** The Town of Pembroke maintains one type of proprietary fund called an Enterprise Fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses the enterprise fund to account for its water and sewer activity.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund, which is considered a major fund of the Town.

**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 can be found on pages 20-49 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Pembroke's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 50 of this report.

**Government-wide Financial Analysis**

**Town of Pembroke's Net Position**

	Governmental		Business-type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
<b>Assets</b>						
Current and other assets	\$ 1,826,828	\$ 1,707,808	\$ 2,480,726	\$ 1,885,269	\$ 4,307,554	\$ 3,593,077
Capital assets	6,267,374	6,401,092	13,670,736	13,703,344	19,938,110	20,104,436
Total assets	8,094,202	8,108,900	16,151,462	15,588,613	24,245,664	23,697,513
<b>Deferred Outflows of Resources</b>	195,705	261,985	142,354	232,752	338,059	494,737
Total deferred outflows of resources	195,705	261,985	142,354	232,752	338,059	494,737
<b>Liabilities</b>						
Current liabilities	326,557	279,659	181,873	178,931	508,430	458,590
Long-term liabilities	4,743,402	3,435,572	1,219,021	1,382,653	5,962,423	4,818,225
Total liabilities	5,069,959	3,715,231	1,400,894	1,561,584	6,470,853	5,276,815
<b>Deferred Inflows of Resources</b>	231,562	21,260	11,577	13,507	243,139	34,767
Total deferred inflows of resources	231,562	21,260	11,577	13,507	243,139	34,767
<b>Net position</b>						
Net investment in capital assets	3,881,350	3,807,208	12,639,288	12,586,422	16,520,638	16,393,630
Restricted	362,592	390,135	-	-	362,592	390,135
Unrestricted	(1,255,556)	437,051	2,242,057	1,659,852	986,501	2,096,903
Total net position	\$ 2,988,386	\$ 4,634,394	\$ 14,881,345	\$ 14,246,274	\$ 17,869,731	\$ 18,880,668

**Town of Pembroke, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2018**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of resources of the Town exceeded liabilities and deferred inflows of resources by \$17,869,731 at close of the current fiscal year. By far the largest portion of the Town's net position (92.45%) reflects its investment in capital assets (e.g., land, buildings, machinery and equipment, and infrastructure) less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of related debt, it should note that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted portion of net position represents the Town's resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position is \$986,501, or 5.52% of the total.

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

	Governmental		Business-type		Total	
	Activities		Activities			
	2018	2017	2018	2017	2018	2017
<b>Revenues:</b>						
Program revenues						
Charges for services	\$ 611,064	\$ 589,466	\$ 2,925,405	\$ 2,763,045	\$ 3,536,469	\$ 3,352,511
Grants and contributions	145,032	229,027	392,283	630,033	537,315	859,060
General revenues						
Property taxes	1,202,142	1,204,124	-	-	1,202,142	1,204,124
Other taxes/licenses	787,967	735,776	-	-	787,967	735,776
Other revenues	319,941	189,403	-	-	319,941	189,403
Unrestricted revenues	224,984	328,978	-	-	224,984	328,978
Interest income	5,489	593	9,167	-	14,656	593
<b>Total revenues</b>	<b>3,296,619</b>	<b>3,277,367</b>	<b>3,326,855</b>	<b>3,393,078</b>	<b>6,623,474</b>	<b>6,670,445</b>
<b>Expenses:</b>						
General government	815,908	677,784	-	-	815,908	677,784
Public safety	1,254,091	1,300,447	-	-	1,254,091	1,300,447
Transportation	251,716	238,726	-	-	251,716	238,726
Environmental prot	475,803	464,428	-	-	475,803	464,428
Economic develop	11,792	25,204	-	-	11,792	25,204
Cultural and rec	430,091	346,274	-	-	430,091	346,274
Interest on debt	77,483	105,926	-	-	77,483	105,926
Water and sewer	-	-	2,691,784	2,827,368	2,691,784	2,827,368
<b>Total expenses</b>	<b>3,316,884</b>	<b>3,158,789</b>	<b>2,691,784</b>	<b>2,827,368</b>	<b>6,008,668</b>	<b>5,986,157</b>
Increase (decrease) in net position	(20,265)	118,578	635,071	565,710	614,806	684,288
Net position – beginning of Year	4,634,394	4,308,592	14,246,274	13,680,564	18,880,668	17,989,156
Restatement	(1,625,743)	207,224	-	-	(1,625,743)	207,224
Net position – beginning of Year	3,008,651	4,515,816	14,246,274	13,680,564	17,254,925	18,196,380
Net position – ending of Year	\$ 2,988,386	\$ 4,634,394	\$14,881,345	\$14,246,274	\$17,869,731	\$18,880,668

**Town of Pembroke, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2018**

**Governmental activities.** Governmental activities decreased the Town of Pembroke's net position by \$20,265.

Property taxes continue to be the largest revenue consistent contributor with 36.47% of the total governmental activities revenues. Other taxes/licenses were the next largest at 23.90%.

Capital and operating grants for governmental activities furnished resources to support the six functions of the Town: general government, public safety, transportation, environmental protection, economic and physical development, and cultural and recreation.

**Business-type activities.** Business-type activities increased the Town's net position by \$635,071. Key elements of this increase are as follows: commercial and community growth and governmental assistance.

**Financial Analysis of the Government's Funds**

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

**Governmental Funds.** The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. In particular, an unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the current fiscal year, the Town's governmental funds reported a combined fund balance of \$1,556,109. Of this total amount, \$1,193,517 constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of fund balance is reserved to indicate that funds are not available for spending because these funds have already been committed as follows: 1) to liquidate contracts and purchase orders from the prior year, or 2) for a variety of other restricted purposes.

The general fund is the chief operating fund of the Town of Pembroke. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,193,517, while total fund balance reached \$1,534,356. The Governing Body of the Town of Pembroke has determined that the Town should maintain an available fund balance of 20% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 37.18% of General Fund expenditures.

**Proprietary Funds.** The Town of Pembroke's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$2,242,057 for the Water and Sewer Fund. Other factors concerning this fund have been discussed in the Town's business-type activities.

**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.

**Town of Pembroke, North Carolina**  
**Management's Discussion and Analysis (continued)**  
**June 30, 2018**

**Capital Assets and Debt Administration**

The Town of Pembroke's investment in capital assets for its governmental and business-type activities as of June 30, 2018 totals \$19,938,110 (net of accumulated depreciation). The investment in capital assets includes land, buildings, improvements, furniture and equipment, infrastructure (including distribution systems), and vehicles.

**Town of Pembroke's Capital Assets**  
**(net of depreciation)**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 608,500	\$ 608,500	\$ 140,972	\$ 140,972	\$ 749,472	\$ 749,472
Buildings & infrastructure	4,965,303	5,090,961	-	-	4,965,303	5,090,961
Equipment	693,571	701,631	-	-	693,571	701,631
Water & Sewer infrastructure	-	-	13,529,764	13,562,372	13,529,764	13,562,372
<b>Totals</b>	<b>\$ 6,267,374</b>	<b>\$ 6,401,092</b>	<b>\$ 13,670,736</b>	<b>\$ 13,703,344</b>	<b>\$19,938,110</b>	<b>\$20,104,436</b>

Additional information on the Town's capital assets can be found in the notes on pages 29 and 30 of this report.

**Long-term debt.** At the end of the current fiscal year, the Town of Pembroke had total debt outstanding of \$6,260,267.

**Outstanding Debt**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Capital leases	\$ 21,004	\$ 41,055	\$ -	\$ -	\$ 21,004	\$ 41,055
Installment debt	2,365,020	2,552,829	-	-	2,365,020	2,552,829
Compensated absences	50,174	50,174	77,292	77,292	127,466	127,466
Pension related debt (LGERS)	226,952	308,880	197,755	273,913	424,707	582,793
Pension related debt (LEO)	275,321	258,643	-	-	275,321	258,643
OPEB liability	2,015,301	431,851	-	-	2,015,301	431,851
General obligation bonds	-	-	1,031,448	116,922	1,031,448	116,922
<b>Totals</b>	<b>\$ 4,953,772</b>	<b>\$ 3,643,432</b>	<b>\$ 1,306,495</b>	<b>\$ 468,127</b>	<b>\$ 6,260,267</b>	<b>\$ 4,111,559</b>

North Carolina's general statutes limit the amount of general obligation debt that a governmental unit can issue to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Pembroke is presently at \$11,635,066.

Additional information pertaining to the Town of Pembroke's long-term debt begins on page 43 of this report.

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

The unemployment rate for the Town and surrounding area is 6.4% at June 30, 2018 which is an increase from a rate of 6.2% a year ago. This comparison is higher than the State's rate of 4.2% and the national rate of 4.0%

**Request for Information**

This financial report is designed to provide a general overview of the Town of Pembroke's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, Post Office Box 866, Pembroke, North Carolina 28372.

## **Basic Financial Statements**

**Town of Pembroke, North Carolina**  
**Statement of Net Position**  
**June 30, 2018**

	<u>Primary Government</u>			<b>Pembroke Tourism Development Authority</b>	<b>Pembroke Board of Alcohol Control</b>
	<b>Governmental Activities</b>	<b>Business - Type Activities</b>	<b>Total</b>		
<b><u>ASSETS</u></b>					
<b>Current assets:</b>					
Cash and cash equivalents	\$ 1,309,704	\$ 1,861,581	\$ 3,171,285	\$ 32,671	\$ 285,691
Taxes receivable, net	154,532	-	154,532	-	-
Accounts receivable, net	60,052	123,403	183,455	-	-
Accounts receivable - other	144,014	408,385	552,399	6,211	-
Due from other governments	135,097	-	135,097	-	-
Inventories	-	87,357	87,357	-	109,891
Prepaid items	-	-	-	-	3,228
Restricted cash and cash equivalents	23,429	-	23,429	-	-
<b>Total current assets</b>	<b>1,826,828</b>	<b>2,480,726</b>	<b>4,307,554</b>	<b>38,882</b>	<b>398,810</b>
<b>Non-current assets:</b>					
Capital assets (Note 3):					
Land	608,500	140,972	749,472	-	7,500
Other capital assets, net of depreciation	5,658,874	13,529,764	19,188,638	-	123,726
<b>Total capital assets</b>	<b>6,267,374</b>	<b>13,670,736</b>	<b>19,938,110</b>	<b>-</b>	<b>131,226</b>
<b>Total assets</b>	<b>8,094,202</b>	<b>16,151,462</b>	<b>24,245,664</b>	<b>38,882</b>	<b>530,036</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>					
Pension deferrals	180,661	142,354	323,015	-	-
OPEB deferrals	15,044	-	15,044	-	-
<b>Total deferred outflows of resources</b>	<b>195,705</b>	<b>142,354</b>	<b>338,059</b>	<b>-</b>	<b>-</b>
<b><u>LIABILITIES</u></b>					
<b>Current liabilities:</b>					
Accounts payable and accrued expenses	116,187	55,463	171,650	-	77,048
Current portion of long-term debt	210,370	87,474	297,844	-	110,983
Deposits	-	38,936	38,936	-	-
<b>Total current liabilities</b>	<b>326,557</b>	<b>181,873</b>	<b>508,430</b>	<b>-</b>	<b>188,031</b>
<b>Long-term liabilities:</b>					
Net pension liability	226,952	197,755	424,707	-	-
Total pension liability	275,321	-	275,321	-	-
Total OPEB liability	2,015,301	-	2,015,301	-	-
Due in more than one year	2,225,828	1,021,266	3,247,094	-	-
<b>Total liabilities</b>	<b>5,069,959</b>	<b>1,400,894</b>	<b>6,470,853</b>	<b>-</b>	<b>188,031</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>					
Pension deferrals	27,303	11,577	38,880	-	-
OPEB deferrals	204,259	-	204,259	-	-
<b>Total deferred inflows of resources</b>	<b>231,562</b>	<b>11,577</b>	<b>243,139</b>	<b>-</b>	<b>-</b>
<b><u>NET POSITION</u></b>					
Net investment in capital assets	3,881,350	12,639,288	16,520,638	-	20,243
Restricted for:					
Stabilization by State Statute	339,163	-	339,163	-	-
Other functions	23,429	-	23,429	6,211	37,360
Unrestricted	(1,255,556)	2,242,057	986,501	32,671	284,402
<b>Total net position</b>	<b>\$ 2,988,386</b>	<b>\$ 14,881,345</b>	<b>\$ 17,869,731</b>	<b>\$ 38,882</b>	<b>\$ 342,005</b>

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

**Town of Pembroke, North Carolina**  
**Statement of Activities**  
**For the Year Ended June 30, 2018**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Position</u>				
		<u>Charges for Services</u>	<u>Capital Grants and Contributions</u>	<u>Operating Grants and Contributions</u>	<u>Primary Government</u>			<u>Pembroke Tourism Development Authority</u>	<u>Pembroke Board of Alcohol Control</u>
				<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>			
<b>Primary government</b>									
<b>Governmental activities:</b>									
General government	\$ 815,908	\$ 4,522	\$ -	\$ 51,523	\$ (759,863)	\$ -	\$ (759,863)	\$ -	\$ -
Public safety	1,254,091	43,323	-	-	(1,210,768)	-	(1,210,768)	-	-
Transportation	251,716	-	-	93,509	(158,207)	-	(158,207)	-	-
Environmental protection	475,803	551,427	-	-	75,624	-	75,624	-	-
Economic and physical development	11,792	11,792	-	-	-	-	-	-	-
Cultural and recreational	430,091	-	-	-	(430,091)	-	(430,091)	-	-
Interest on long-term debt	77,483	-	-	-	(77,483)	-	(77,483)	-	-
<b>Total governmental activities</b>	<u>3,316,884</u>	<u>611,064</u>	<u>-</u>	<u>145,032</u>	<u>(2,560,788)</u>	<u>-</u>	<u>(2,560,788)</u>	<u>-</u>	<u>-</u>
<b>Business-type activities:</b>									
Water and sewer	2,691,784	2,925,405	392,283	-	-	625,904	625,904	-	-
<b>Total business-type activities</b>	<u>2,691,784</u>	<u>2,925,405</u>	<u>392,283</u>	<u>-</u>	<u>-</u>	<u>625,904</u>	<u>625,904</u>	<u>-</u>	<u>-</u>
<b>Total primary government</b>	<u>\$ 6,008,668</u>	<u>\$ 3,536,469</u>	<u>\$ 392,283</u>	<u>\$ 145,032</u>	<u>(2,560,788)</u>	<u>625,904</u>	<u>(1,934,884)</u>	<u>-</u>	<u>-</u>
<b>Component units:</b>									
Pembroke Tourism Development Authority	\$ 50,023	\$ 36,202	\$ -	\$ -	-	-	-	(13,821)	-
Pembroke Board of Alcohol Control	960,323	971,351	-	-	-	-	-	-	11,028
<b>Total component unit</b>	<u>\$ 1,010,346</u>	<u>\$ 1,007,553</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(13,821)</u>	<u>11,028</u>
General revenues:									
Ad Valorem taxes					1,202,142	-	1,202,142	-	-
Other taxes and licenses					787,967	-	787,967	-	-
Unrestricted intergovernmental revenues					319,941	-	319,941	-	-
Miscellaneous					224,984	-	224,984	-	-
Unrestricted investment earnings					5,489	9,167	14,656	-	-
<b>Total general revenues and transfers</b>					<u>2,540,523</u>	<u>9,167</u>	<u>2,549,690</u>	<u>-</u>	<u>-</u>
<b>Change in net position</b>					<u>(20,265)</u>	<u>635,071</u>	<u>614,806</u>	<u>(13,821)</u>	<u>11,028</u>
<b>Net position, beginning, previously reported</b>					4,634,394	14,246,274	18,880,668	52,703	330,977
Restatement					(1,625,743)	-	(1,625,743)	-	-
<b>Net position, beginning, restated</b>					<u>3,008,651</u>	<u>14,246,274</u>	<u>17,254,925</u>	<u>52,703</u>	<u>330,977</u>
<b>Net position, ending</b>					<u>\$ 2,988,386</u>	<u>\$14,881,345</u>	<u>\$ 17,869,731</u>	<u>\$ 38,882</u>	<u>\$342,005</u>

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



**Town of Pembroke, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2018**

	<b>Major Fund</b>	<b>Non-Major</b>	<b>Total</b>
	<b>General</b>	<b>Funds</b>	<b>Governmental</b>
			<b>Funds</b>
<b><u>ASSETS</u></b>			
Cash and cash equivalents	\$ 1,309,704	\$ -	\$ 1,309,704
Restricted cash and cash equivalents	1,676	21,753	23,429
Taxes receivable, net	154,532	-	154,532
Accounts receivable, net	60,052	-	60,052
Accounts receivable - other	144,014	-	144,014
Due from other governments	135,097	-	135,097
<b>Total assets</b>	<b>1,805,075</b>	<b>21,753</b>	<b>1,826,828</b>
 <b><u>LIABILITIES</u></b>			
Accounts payable and accrued liabilities	116,187	-	116,187
<b>Total liabilities</b>	<b>116,187</b>	<b>-</b>	<b>116,187</b>
 <b><u>DEFERRED INFLOWS OF RESOURCES</u></b>			
Property taxes receivable	154,532	-	154,532
<b>Total deferred inflows of resources</b>	<b>154,532</b>	<b>-</b>	<b>154,532</b>
 <b><u>FUND BALANCES</u></b>			
Restricted			
Stabilization by State Statute	339,163	-	339,163
Streets	1,676	-	1,676
Economic development	-	21,753	21,753
Assigned			
Subsequent year's expenditures	-	-	-
Unassigned	1,193,517	-	1,193,517
<b>Total fund balances</b>	<b>1,534,356</b>	<b>21,753</b>	<b>1,556,109</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 1,805,075</b>	<b>\$ 21,753</b>	

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

**Town of Pembroke, North Carolina**  
**Balance Sheet (continued)**  
**Governmental Funds**  
**June 30, 2018**

**Amounts reported for governmental activities in the Statement of Net Position (Page 9) are different because:**

Total Fund Balance, Governmental Funds		\$ 1,556,109
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds		
Gross capital assets at historical cost	\$ 10,018,252	
Accumulated depreciation	<u>(3,750,878)</u>	6,267,374
Deferred outflows of resources related to pensions are not reported in the funds		
		180,661
Deferred outflows of resources related to OPEB are not reported in the funds		
		15,044
Earned revenues considered deferred inflows of resources in fund statements		
		154,532
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds		
Gross long-term debt	\$ (2,644,058)	
Long-term debt included as net position below (includes the additions of long-term debt and principal payments during the year)	207,860	
Net pension liability	(226,952)	
Total pension liability	(275,321)	
OPEB liability	<u>(2,015,301)</u>	(4,953,772)
Deferred inflows of resources related to pensions are not reported in the funds		
		(27,303)
Deferred inflows of resources related to OPEB are not reported in the funds		
		<u>(204,259)</u>
<b>Net position of governmental activities</b>		<b><u><u>\$ 2,988,386</u></u></b>

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

**Town of Pembroke, North Carolina**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Governmental Funds**  
**June 30, 2018**

	<u>Major Fund</u> <u>General</u>	<u>Non-Major</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
<b>Revenues:</b>			
Ad valorem taxes	\$ 1,203,604	\$ -	\$ 1,203,604
Other taxes and licenses	787,967	-	787,967
Unrestricted intergovernmental	319,941	-	319,941
Restricted intergovernmental	192,877	11,792	204,669
Sales and services	551,427	-	551,427
Investment earnings	5,489	-	5,489
Miscellaneous	224,984	-	224,984
<b>Total revenues</b>	<u>3,286,289</u>	<u>11,792</u>	<u>3,298,081</u>
<b>Expenditures:</b>			
General government	520,918	-	520,918
Public safety	1,305,833	-	1,305,833
Transportation	267,821	-	267,821
Environmental protection	475,803	-	475,803
Economic and physical development	-	11,792	11,792
Cultural and recreational	354,477	-	354,477
Debt service:			
Principal retirements	207,860	-	207,860
Interest and other charges	77,483	-	77,483
<b>Total expenditures</b>	<u>3,210,195</u>	<u>11,792</u>	<u>3,221,987</u>
<b>Revenues over (under) expenditures</b>	<u>76,094</u>	<u>-</u>	<u>76,094</u>
<b>Other financing sources (uses)</b>			
Loan proceeds	-	-	-
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balance</b>	76,094	-	76,094
<b>Fund balances, beginning</b>	<u>1,458,262</u>	<u>21,753</u>	<u>1,480,015</u>
<b>Fund balances, ending</b>	<u>\$ 1,534,356</u>	<u>\$ 21,753</u>	<u>\$ 1,556,109</u>

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

**Town of Pembroke, North Carolina**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in**  
**Fund Balance of Governmental Funds to the Statement of Activities**  
**June 30, 2018**

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

Net changes in fund balances - total governmental funds	\$	76,094
<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 is 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	\$ 96,100	
Depreciation expense for governmental assets	<u>(229,817)</u>	(133,717)
<p>Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities</p>		
		60,844
<p>Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds:</p>		
Change in unavailable revenue for tax revenues		(1,462)
<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 an 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	<u>207,860</u>	207,860
<p>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.</p>		
Pension expense	(82,962)	
OPEB plan expense	<u>(146,922)</u>	<u>(229,884)</u>
<b>Total changes in net position of governmental activities</b>		<u><u>\$ (20,265)</u></u>

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

**Town of Pembroke, North Carolina**  
**General Fund**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance –**  
**Budget and Actual**  
**For the Year Ended June 30, 2018**

	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Variance with Final Budget - Positive (Negative)</b>
<b>Revenues:</b>				
Ad valorem taxes	\$ 1,161,710	\$ 1,191,605	\$ 1,203,604	\$ 11,999
Other taxes and licenses	704,000	787,967	787,967	-
Unrestricted intergovernmental	317,000	317,697	319,941	2,244
Restricted intergovernmental	139,000	192,876	192,877	1
Sales and services	540,000	551,427	551,427	-
Investment earnings	400	5,489	5,489	-
Miscellaneous	227,250	236,984	224,984	(12,000)
<b>Total revenues</b>	3,089,360	3,284,045	3,286,289	2,244
<b>Expenditures:</b>				
General government	454,955	520,920	520,918	2
Public safety	1,315,150	1,305,834	1,305,833	1
Transportation	248,700	267,823	267,821	2
Environmental protection	500,000	475,803	475,803	-
Cultural and recreational	356,600	354,477	354,477	-
Contingency	63,612	73,845	-	73,845
Debt service :				
Principal retirement	207,860	207,860	207,860	-
Interest and other charges	77,483	77,483	77,483	-
<b>Total expenditures</b>	3,224,360	3,284,045	3,210,195	73,850
<b>Revenues over (under) expenditures</b>	(135,000)	-	76,094	76,094
<b>Other financing sources (uses)</b>				
Loan proceeds	-	-	-	-
<b>Total other financing sources (uses)</b>	-	-	-	-
<b>Fund balance appropriated</b>	135,000	-	-	-
<b>Net change in fund balance</b>	\$ -	\$ -	76,094	\$ 76,094
<b>Fund balance, beginning</b>			1,458,262	
<b>Fund balance, ending</b>			\$ 1,534,356	

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

**Town of Pembroke, North Carolina**  
**Statement of Fund Net Position**  
**Proprietary Fund**  
**June 30, 2018**

	<b>Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Total</b>
<b><u>ASSETS</u></b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 1,861,581	\$ 1,861,581
Accounts receivable - net	123,403	123,403
Accounts receivable - Golden Leaf Foundation	408,385	408,385
Inventories	87,357	87,357
<b>Total current assets</b>	2,480,726	2,480,726
<b>Noncurrent assets:</b>		
Capital assets:		
Land	140,972	140,972
Other capital assets, net of depreciation	13,529,764	13,529,764
<b>Total noncurrent assets</b>	13,670,736	13,670,736
<b>Total assets</b>	16,151,462	16,151,462
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>		
Pension deferrals	142,354	142,354
<b>Total deferred outflows of resources</b>	142,354	142,354
<b><u>LIABILITIES</u></b>		
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	55,463	55,463
Current portion of long-term debt	87,474	87,474
Deposits	38,936	38,936
<b>Total current liabilities</b>	181,873	181,873
<b>Noncurrent liabilities:</b>		
Compensated absences	77,292	77,292
Noncurrent portion of long-term debt	943,974	943,974
Net pension liability	197,755	197,755
<b>Total noncurrent liabilities</b>	1,219,021	1,219,021
<b>Total liabilities</b>	1,400,894	1,400,894
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>		
Pension deferrals	11,577	11,577
<b>Total deferred inflows of resources</b>	11,577	11,577
<b><u>NET POSITION</u></b>		
Net investment in capital assets	12,639,288	12,639,288
Unrestricted	2,242,057	2,242,057
<b>Total net position</b>	\$ 14,881,345	\$ 14,881,345

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

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

	<b>Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>Operating revenues</b>		
Charges for services	\$ 2,925,405	\$ 2,925,405
Other operating revenues	-	-
<b>Total operating revenues</b>	2,925,405	2,925,405
<b>Operating expenses</b>		
Administration	613,586	613,586
Water department	609,251	609,251
Sewer department	935,085	935,085
Depreciation	478,832	478,832
<b>Total operating expenses</b>	2,636,754	2,636,754
<b>Operating income (loss)</b>	288,651	288,651
<b>Nonoperating revenues (expenses)</b>		
Investment income	9,167	9,167
Interest and other charges	(55,030)	(55,030)
<b>Total nonoperating revenues (expenses)</b>	(45,863)	(45,863)
<b>Income (loss) before contributions and transfers</b>	242,788	242,788
<b>Contributions and transfers</b>		
Capital contributions and grants	392,283	392,283
Transfer from other funds	-	-
<b>Total contributions and transfers</b>	392,283	392,283
<b>Change in net position</b>	635,071	635,071
<b>Net position, beginning</b>	14,246,274	14,246,274
<b>Net position, ending</b>	\$ 14,881,345	\$ 14,881,345

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

**Town of Pembroke, North Carolina**  
**Statement of Cash Flows**  
**Proprietary Fund**  
**For the Year Ended June 30, 2018**

	<b>Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 2,925,462	\$ 2,925,462
Cash payments for personal services	(1,163,240)	(1,163,240)
Cash payments for goods and services	(1,377,504)	(1,377,504)
Increase (decrease) in customer deposits	938	938
<b>Net cash provided (used) by operating activities</b>	<b>385,656</b>	<b>385,656</b>
<b>Cash flows from non-capital financing activities</b>		
Increase in due to (from) other funds	-	-
Transfers from (to) other funds	-	-
<b>Net cash provided (used) by non-capital financing activities</b>	<b>-</b>	<b>-</b>
<b>Cash flows from capital and related financing activities</b>		
Capital contributions and grants	392,283	392,283
Principal paid on bonds and other loans	(85,474)	(85,474)
Interest paid on bonds and other loans	(55,030)	(55,030)
Acquisition and construction of capital assets	(446,224)	(446,224)
<b>Net cash provided (used) by capital and related financing activities</b>	<b>(194,445)</b>	<b>(194,445)</b>
<b>Cash flows from investing activities</b>		
Interest from investments	9,167	9,167
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>200,378</b>	<b>200,378</b>
<b>Cash and cash equivalents - beginning of year</b>	<b>1,661,203</b>	<b>1,661,203</b>
<b>Cash and cash equivalents - end of year</b>	<b>\$ 1,861,581</b>	<b>\$ 1,861,581</b>

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



**Town of Pembroke, North Carolina**  
**Statement of Cash Flows (continued)**  
**Proprietary Fund**  
**For the Year Ended June 30, 2018**

	<b>Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>		
Operating income (loss)	\$ 288,651	\$ 288,651
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	478,832	478,832
(Increase) decrease in accounts receivable	(408,328)	(408,328)
(Increase) decrease in inventories	13,249	13,249
Decrease in deferred outflows of resources - pensions	90,398	90,398
Decrease in net pension liability	(76,158)	(76,158)
Decrease in deferred inflows of resources - pension	(1,930)	(1,930)
Increase (decrease) in accounts payable and accrued liabilities	4	4
Increase (decrease) in customer deposits	938	938
<b>Net cash provided (used) by operating activities</b>	<b>\$ 385,656</b>	<b>\$ 385,656</b>

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

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements**  
**June 30, 2018**

**Note 1 - Summary of Significant Accounting Policies**

The accounting policies of the Town of Pembroke, North Carolina, (the “Town”) and its discretely presented component unit 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 Pembroke 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 and its component units, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

*Component Units*

In conformity with generally accepted accounting principles, the financial statements of the component unit have been included in the financial statements as discretely presented component units.

*Discretely Presented Component Units*

The Town appoints the members of the ABC Board's governing board. The Pembroke ABC Board's equity is owned jointly between the Town of Pembroke and Robeson County, with the Town owning sixty-five percent and the County owning thirty-five percent. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town and Robeson County. The ABC Board complies with this requirement by distributing its surpluses to the Town of Pembroke and Robeson County pro-rata, based on their equity percentages. The ABC Board, which has a June 30 year-end, is presented as if it were a Proprietary Fund. Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Pembroke ABC Board, 100 North Vance Street, Pembroke, North Carolina 28372.

On July the 9<sup>th</sup>, 2010, the North Carolina legislature authorized the creation of the Pembroke Tourism Development Authority. The Pembroke Town council appoints members of the Authority Board and assesses and collects occupancy taxes from local hotels and remits a portion of the money to the Authority. This practice was initiated during the second calendar quarter of 2011. The Authority, at this time, has no employees, capital assets, or indebtedness. No income taxes were considered as the Board formally applied for and received tax exempt status under Section 501(c)(6) of the Internal Revenue Code on June 13, 2012.

B. Basis of Presentation

*Government-wide statements:* The Statement of Net Position and the Statement of Activities display information about the primary government and its component unit. 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.

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 1 - Summary of Significant Accounting Policies (continued)**

**B. Basis of Presentation (continued)**

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

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

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.

The Town reports the following non-major governmental funds:

*Special Revenue Funds* - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes. The Town has one Special Revenue Fund, the Community Development Fund.

The Town reports the following major enterprise fund:

*Water and Sewer Fund* – The Water and Sewer Fund is used to account for the activity related to the provision of water and sanitary sewer services to the Town's customers.

For financial reporting purposes, a Water and Sewer Capital Project Fund has been consolidated with the enterprise operating fund.

**C. Measurement Focus and Basis of Accounting**

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

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

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 1 - Summary of Significant Accounting Policies (continued)**

C. Measurement Focus and Basis of Accounting (continued)

*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 limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Special Revenue Fund and the Capital Projects Fund, which are consolidated with the operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The Town Manager is authorized to transfer appropriations within a fund up to \$2,500; however, any revisions that alter total expenditures of any fund or exceed \$2,500 must be approved by the governing body. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 1 - Summary of Significant Accounting Policies (continued)**

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

*Deposits and Investments*

All deposits of the Town and of the ABC Board are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town and the ABC Board may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town and the ABC Board 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 and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's and ABC Board's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value.

In accordance with State law, the Town has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

*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. The ABC Board considers all highly liquid investments (including restricted assets) with maturity of three months or less when purchased to be cash and cash equivalents.

*Restricted Assets*

Money in the Economic Development Fund is classified as restricted assets because its use is restricted to the Economic Development Fund per NC G.S. Chapter 159, Article 3, Part 2. Powell bill funds are also classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4.

*Town of Pembroke Restricted Cash:*

At June 30, 2018, restricted cash for Governmental Activities totaled \$23,429. Of that amount \$1,676 is related to Streets and \$21,753 is related to Economic Development.

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 1 - Summary of Significant Accounting Policies (continued)**

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

*Ad Valorem Taxes Receivable*

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

*Allowance 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.

*Inventory and Prepaid Items*

The inventories of the Town and the ABC Board are valued at cost (first-in, first-out), which approximates market. The inventories of the Town's Enterprise Fund and those of the ABC Board consist of materials and supplies held for consumption. The cost of these inventories is recorded as an expense as the inventories are consumed.

The inventories of the Town's enterprise funds and those of the Town of Pembroke ABC Board consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

*Capital Assets*

The government defines capital assets 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, \$5,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$100,000; furniture and equipment, \$5,000; and vehicles, \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. 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, 2002, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the life of the asset is not capitalized.

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

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 1 - Summary of Significant Accounting Policies (continued)**

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

General and Enterprise Funds:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	25 years
Buildings	50-67 years
Improvements	25 years
Vehicles	6 years
Furniture and fixtures	6-10 years
Equipment	6-35 years
Computer equipment	3 years

Discretely presented component unit:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	50-67 years
Land improvements	20 years
Furniture and fixtures	6-10 years
Equipment	6-35 years

*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 has one item that meets this criterion, pension deferrals for 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 two items that meet this criterion, property taxes receivable, and pension deferrals.

*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 the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related 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.

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 1 - Summary of Significant Accounting Policies (continued)**

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

*Compensated Absences*

The vacation policies of the Town and the ABC Board provide for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town, the current portion of the accumulated vacation pay is not considered to be material; therefore, no expenditure or liability has been reported in the governmental funds.

Both the Town and the ABC Board's sick leave policies provide for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the Town nor the ABC Board has any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

*Net Position / Fund Balances*

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

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

The governmental fund types classify fund balances as follows:

Non-spendable Fund Balance – This classification 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.

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

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

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

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

*Restricted for Economic Development* –portion of Fund Balance restricted for economic development.

Assigned fund balance – portion of fund balance that the Town of Pembroke intends to use for specific purposes.

*Subsequent year's expenditures* – portion of the total fund balance available for appropriation that has been designated for the adopted in next year's budget.

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



**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 1 - Summary of Significant Accounting Policies (continued)**

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

*Net Position / Fund Balances (continued)*

The Town of Pembroke 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.

*Defined Benefit Cost-Sharing Plans*

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 Pembroke's employer contributions are recognized when due and the Town of Pembroke 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.

**Note 2 – Stewardship, Compliance, and Accountability**

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

1. Noncompliance with North Carolina General Statutes

None noted.

2. Contractual Violations

None noted.

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

None noted.

C. Excess of Expenditures over Appropriations

None Noted.

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds**

A. Assets

*Deposits*

All the deposits of the Town and the ABC Board 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 or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent.

Because of the inability to measure the exact amounts of collateral pledged for the Town or the ABC Board 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.

At June 30, 2018, the Town's deposits had a carrying amount of \$3,194,714 cash and a bank balance of \$3,422,263. Of the bank balance \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method. The carrying amount of deposits for the Tourism Development Authority was \$32,671 and the bank balance was \$33,671. All of that bank balance was covered by federal depository insurance. The carrying amount of deposits for the Pembroke ABC Board was \$285,691 and the bank balance was \$262,049. All of that bank balance was covered by federal depository insurance.

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

A. Assets (continued)

*Capital Assets*

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 608,500	\$ -	\$ -	\$ 608,500
<b>Capital assets being depreciated:</b>				
Fire station (1/2 interest)	44,182	-	-	44,182
Recreation complex	3,972,357	-	-	3,972,357
Municipal complex	1,730,168	-	-	1,730,168
Equipment and improvements	539,247	-	-	539,247
Public works	189,409	-	-	189,409
Public buildings and grounds	904,097	32,693	-	936,790
Old town hall	131,047	-	-	131,047
Fire-fighting equipment	615,599	-	-	615,599
Police equipment	1,001,206	63,407	-	1,064,613
Recreation equipment	58,367	-	-	58,367
Infrastructure	127,973	-	-	127,973
Total capital assets being depreciated	<u>9,313,652</u>	<u>96,100</u>	<u>-</u>	<u>9,409,752</u>
<b>Less – accumulated depreciation for:</b>				
Fire station (1/2 interest)	34,468	884	-	35,352
Recreation complex	735,504	79,447	-	814,951
Municipal complex	630,930	51,383	-	682,313
Equipment and improvements	259,778	17,588	-	277,366
Public buildings and grounds	293,529	10,888	-	304,417
Old town hall	131,047	-	-	131,047
Fire-fighting equipment	409,953	30,667	-	440,620
Police equipment	802,140	21,545	-	823,685
Recreation equipment	40,917	1,667	-	42,584
Infrastructure	182,794	15,749	-	198,543
Total accumulated depreciation	<u>3,521,060</u>	<u>\$ 229,818</u>	<u>\$ -</u>	<u>3,750,878</u>
<b>Governmental activity capital assets - net</b>	<u>\$ 6,401,092</u>			<u>\$ 6,267,374</u>

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

A. Assets (continued)

*Capital Assets (continued)*

Depreciation expense by function:

General Government	\$ 79,020
Public Safety	53,096
Transportation	16,588
Recreation	81,114
Total	\$ 229,818

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
<b>Business-type activities:</b>				
<b>Capital assets not being depreciated:</b>				
Land	\$ 140,972	-	-	\$ 140,972
<b>Capital assets being depreciated:</b>				
Sewer system	13,209,471	232,201	-	13,441,672
Water system	5,604,391	-	-	5,604,391
Water and sewer equipment	2,345,834	214,023	-	2,559,857
Total capital assets being depreciated	21,159,696	446,224	-	21,605,920
<b>Less – accumulated depreciation for:</b>				
Sewer system	4,314,524	268,750	-	4,583,274
Water system	1,880,739	122,110	-	2,002,849
Water and sewer equipment	1,402,061	87,972	-	1,490,033
Total accumulated depreciation	7,597,324	\$ 478,832	\$ -	8,076,156
<b>Business-type activity capital assets - net</b>	\$ 13,703,344			\$ 13,670,736

**Discretely presented component unit**

Activity for the ABC Board fixed assets at June 30, 2018:

Land	\$ 7,500
Buildings & equipment	238,240
Total	245,740
Less: accumulated depreciation	(114,514)
Total ABC fixed assets	\$ 131,226

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities

*Pension Plan Obligations*

Local Governmental Employees' Retirement System

*Plan Description.* The Town of Pembroke 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, by calling (919) 981-5454, or at [www.osc.nc.gov](http://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 Pembroke 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 Pembroke'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 Pembroke were \$117,404 for the year ended June 30, 2018.

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

*Pension Plan Obligations (continued)*

Local Governmental Employees' Retirement System (continued)

*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 liability of \$424,707 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 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 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, 2017, the Town's proportion was 0.028%, which was a decrease of 0.0003% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$142,955. At June 30, 2018, 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 actual experience	\$ 24,467	\$ 12,022
Changes of assumptions	60,654	-
Net difference between projected and actual earnings on pension plan investments	103,120	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	1,448	12,710
Town contributions subsequent to the measurement date	117,404	-
Total	<u>\$ 307,093</u>	<u>\$ 24,732</u>

\$117,404 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension liability in the year ended June 30, 2019.

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)*

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

<b>Year ended June 30:</b>	
2019	\$ 20,068
2020	119,328
2021	58,884
2022	(33,323)
2023	-
Thereafter	-
	\$ 164,957

*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

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, 2017 are summarized in the following table:

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)*

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



**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

*Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (continued)*

	<b>1% Decrease (6.20%)</b>	<b>Discount Rate (7.20%)</b>	<b>1% Increase (8.20%)</b>
Town's proportionate share of the net pension liability (asset)	\$ 1,274,980	\$ 424,707	\$ (285,003)

*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.

The ABC Board and Pembroke Tourism Development Authority provide no pension plan.

Law Enforcement Officers Special Separation Allowance

*1. Plan Description.* The Town of Pembroke 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:

Active plan members	14
Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Total	16

*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 Statement 73.

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

*Pension Plan Obligations (continued)*

Law Enforcement Officers Special Separation Allowance (continued)

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, 2017.

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 Assembly. There were no contributions made by employees.

***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 \$275,321. 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 the 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 \$25,388.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ -	\$ 9,176
Changes of assumptions	15,922	4,972
County benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	\$ 15,922	\$ 14,148

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

*Pension Plan Obligations (continued)*

Law Enforcement Officers Special Separation Allowance (continued)

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

<b>Year ended June 30:</b>	
2019	\$ 160
2020	160
2021	160
2022	160
2023	468
Thereafter	666
	<u>\$ 1,774</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 3.16 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:

	<b>1% Decrease (2.16%)</b>	<b>Discount Rate (3.16%)</b>	<b>1% Increase (4.16%)</b>
Total pension liability	\$ 303,733	\$ 275,321	\$ 249,841

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

	<b>2018</b>
Beginning balance	\$ 258,643
Service cost	15,563
Interest on the total pension liability	9,665
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(10,829)
Changes of assumptions or other inputs	18,791
Benefit payments	(16,512)
Other changes	-
Ending balance of the total pension liability	<u>\$ 275,321</u>

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

*Pension Plan Obligations (continued)*

Law Enforcement Officers Special Separation Allowance (continued)

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 expense for all pension plans:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	\$ 142,955	\$ 25,388	\$ 168,343
Pension liability	424,707	275,321	700,028
Proportionate share of the net pension liability	.02780%	n/a	
 Deferred Outflows of Resources			
Differences between expected and actual experience	24,467	-	24,467
Changes of assumptions	60,654	15,922	76,576
Net difference between projected and actual earnings on plan investments	103,120	-	103,120
Changes in proportion and differences between contributions and proportionate share of contributions	1,448	-	1,448
Benefit payments and administrative costs paid subsequent to the measurement date	117,404	-	117,404
			-
 Deferred Inflows of Resources			
Differences between expected and actual experience	12,022	9,176	21,198
Changes of assumptions	-	4,972	4,972
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	12,710	-	12,710

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

Supplemental Retirement Income Plan for Law Enforcement Officers

*Plan Description.* The Town contributes to the Supplemental Retirement Income Plan, a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

*Funding Policy.* Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2018 were \$33,163, which consisted of \$25,759 from the Town and \$7,404 from the law enforcement officers.

Other Postemployment Benefits

According to a Town resolution, the Town provides postemployment health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (LGERS) and have at least five years of creditable service with the Town. In addition, the Town pays the full cost of these benefits with a minimum of twenty years of creditable service with the Town. Retirees who do not meet the aforementioned criteria have the option to purchase coverage themselves and their dependents through the Town for eighteen months. The entire cost of this insurance is borne by the retirees. The Town maintains health care coverage through private insurers.

Membership of the Plan consisted of the following at June 30, 2017:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	4	2
Terminated plan members entitled to, but not yet receiving benefits	-	-
Active plan members	18	14
Total	22	16

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

Other Postemployment Benefits (continued)

**Total OPEB Liability**

The Town's total OPEB liability of \$2,015,301 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, 2017 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 7.35 percent, including inflation
Discount rate	3.56 percent
Healthcare costs trend rates	Pre-Medicare 7.50 percent Medicare 5.50 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of the measurement date.

**Changes in the Total OPEB Liability**

	<u><b>Total OPEB Liability</b></u>
Balance at 6/30/16	\$ 2,112,439
Service cost	109,657
Interest on the total pension liability	62,765
Changes of benefit terms	-
Differences between expected and actual experience	17,072
Changes of assumptions or other inputs	(231,787)
Benefit payments	(54,845)
Other changes	-
Balance at 6/30/17	<u><u>\$ 2,015,301</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 Total Date Set for Healthy Annuitants Mortality Table.

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience for the period January 1, 2010 through December 31, 2014.

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

Other Postemployment Benefits (continued)

*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:

	<b>1% Decrease (2.56%)</b>	<b>Discount Rate (3.56%)</b>	<b>1% Increase (4.56%)</b>
Total OPEB liability	\$ 2,465,065	\$ 2,015,301	\$ 1,672,509

*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 healthcare cost trend rates that are 1-percentage point lower or 1-percentage point higher than the current healthcare cost trend rates:

	<b>1% Decrease</b>	<b>Discount Rate</b>	<b>1% Increase</b>
Total OPEB liability	\$ 1,648,147	\$ 2,015,301	\$ 2,507,776

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

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 15,044	\$ -
Changes of assumptions	-	204,259
Benefit payments and administrative costs made subsequent to the measurement date	-	-
Total	\$ 15,044	\$ 204,259

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

Other Postemployment Benefit (continued)

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

<b>Year ended June 30:</b>		
2018	\$	(25,500)
2019		(25,500)
2020		(25,500)
2021		(25,500)
2022		(25,500)
Thereafter		(61,715)
	\$	<u>(189,215)</u>

Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Government Employees' Retirement System (Death Benefit Plan), a multi-employer, State-administered, cost sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employees 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 the contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

Deferred Outflows/Inflows of Resources

Deferred outflows of resources at year-end are comprised of pension related deferrals of \$323,015 and OPEB related deferrals of \$15,044.

Deferred inflows of resources at year-end are comprised of property taxes receivable of \$154,532, pension related deferrals of \$38,880, and OPEB related deferrals of \$204,259.



**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

Long-Term Obligations

*Capital Leases*

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

The agreement was executed in November 1998 to lease fire-fighting equipment and requires an annual payment of \$21,997. Title passes to the Town at the end of the lease term.

The following is an analysis of the assets recorded under capital leases at June 30, 2018:

<u>Classes of Property</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Equipment	\$ 295,106	\$ 247,889	\$ 47,217
Totals	<u>\$ 295,106</u>	<u>\$ 247,889</u>	<u>\$ 47,217</u>

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

2019	\$ 21,997
Total minimum lease payments	<u>21,997</u>
Less: amount representing interest	<u>993</u>
Present value of minimum lease payments	<u>\$ 21,004</u>

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

Long-Term Obligations (continued)

*USDA Promissory Notes*

On July 16, 2002, the Town executed two promissory notes between it and the USDA (lender) for purposes of constructing the new municipal complex. Both notes, one in the amount of \$225,000 and the other in the amount of \$750,000, bear interest at the rate of 4.75%, are payable over 40 years, and are collateralized by a deed of trust on certain real estate, as well as a UCC filing in connection with any personal property contained therein.

The following table summarizes the annual requirements to amortize the aforementioned notes:

	Governmental Activities	
	Principal	Interest
2019	\$ 17,212	\$ 37,681
2020	18,029	36,864
2021	18,886	36,007
2022	19,783	35,110
2023	20,722	34,171
2024-2028	119,345	155,120
2029-2033	150,514	123,951
2034-2038	189,822	84,643
2039-2043	239,395	35,070
	\$ 793,708	\$ 578,617

*Branch Banking and Trust Company Loan*

On January 24, 2007, the Town executed a note with Branch Banking and Trust Company for purposes of purchasing land and finishing the multi-purpose recreation complex. The note is collateralized by a deed of trust on certain real estate. The loan was refinanced to be repaid in 40 quarterly installments of \$36,250, plus interest at 1.89%.

	Governmental Activities	
	Principal	Interest
2019	\$ 145,000	\$ 22,952
2020	145,000	20,211
2021	145,000	17,471
2022	145,000	14,730
2023	145,000	11,990
2024	145,000	9,249
2025	145,000	6,509
2026	145,000	3,768
2027	108,750	1,028
	\$ 1,268,750	\$ 107,908

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

Long-Term Obligations (continued)

During January, 2016, the Town financed a piece of firefighting equipment in the amount of \$145,000 via two loans. Both loans are collateralized by aforementioned equipment. The first loan of \$45,000, through the USDA, requires seven annual payments in the amount of \$7,105, including interest at 2.875%. The second loan of \$100,000, through First Bank, requires seven annual payments in the amount of \$15,496, including interest of 2.33%.

	Governmental Activities			
	USDA Loan		First Bank Loan	
	Principal	Interest	Principal	Interest
2019	\$ 6,236	\$ 868	\$ 13,942	\$ 1,554
2020	6,418	687	14,270	1,226
2021	6,605	500	14,606	890
2022	6,797	307	14,950	545
2023	6,996	109	15,303	193
	\$ 33,052	\$ 2,471	\$ 73,071	\$ 4,408

On July 19, 2011, the Town entered into a loan agreement with the USDA to finance renovations to the local library. The \$232,800 is to be repaid in 25 annual installments of \$14,904, including interest at 4%, payable in the following manner:

	Governmental Activities	
	Principal	Interest
2019	\$ 6,976	\$ 7,928
2020	7,268	7,636
2021	7,572	7,332
2022	7,887	7,017
2023	8,218	6,686
2024-2028	46,533	27,987
2029-2033	57,101	17,419
2034-2037	54,884	4,732
	\$ 196,439	\$ 86,737

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

Long-Term Obligations (continued)

*General Obligation Bonds*

General obligation bonds payable, serviced by the Water and Sewer Fund, were comprised of the following issues at June 30, 2017:

1969 Water and Sewer bonds payable in annual principal installments ranging from \$6,000 to \$7,000 through 2024; interest at 5.00%.	\$ 41,000
1986 Sanitary Sewer bonds payable in annual principal installments ranging from \$9,000 to \$20,000 through 2025; interest at 5.00%.	130,000
1986 Sanitary Sewer bonds payable in annual principal installments ranging from \$1,000 to \$2,000 through 2026; interest at 6.375%.	16,000
1994 Sanitary Sewer bonds payable in annual principal installments ranging from \$16,000 to \$58,000 through 2033; interest at 5.00%.	815,500
1999 NC Drinking Water State Revolving Fund Team Loan payable in twenty annual equal principal payments of \$14,474 plus interest at the rate of 2.55%.	28,948
Total general obligation bonds payable	\$ 1,031,448

Annual debt service requirements to maturity of general obligation bonds, including interest of \$377,048 are as follows:

	Business-Type Activities	
	Principal	Interest
2019	\$ 87,474	\$ 51,083
2020	89,974	47,039
2021	77,500	42,865
2022	80,000	38,962
2023	82,500	34,935
2024-2028	324,000	118,664
2029-2033	290,000	43,500
	\$ 1,031,448	\$ 377,048

At June 30, 2018, the Town's legal debt margin was \$11,635,066.

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 3 - Detail Notes on All Funds (continued)**

B. Liabilities (continued)

Changes in Long-Term Liabilities

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>	<u>Current</u> <u>Portion</u>
<b>Governmental activities:</b>					
Capital leases	\$ 41,055	\$ -	\$ 20,051	\$ 21,004	\$ 21,004
USDA Promissory notes	810,139	-	16,431	793,708	17,212
USDA loan	39,112	-	6,060	33,052	6,236
First Bank loan	86,692	-	13,621	73,071	13,942
BB&T bank loan	1,413,750	-	145,000	1,268,750	145,000
USDA Loan	203,136	-	6,697	196,439	6,976
Net pension liability (LGERS)	308,880	-	81,928	226,952	-
Total pension liability (LEO)	258,643	16,678	-	275,321	-
Total OPEB liability	2,112,439	-	97,138	2,015,301	-
Compensated absences	50,174	-	-	50,174	-
	<u>5,324,020</u>	<u>16,678</u>	<u>386,926</u>	<u>4,953,772</u>	<u>210,370</u>
<b>Business-type activities</b>					
General obligation bonds	1,116,922	-	85,474	1,031,448	87,474
Net pension liability (LGERS)	273,913	-	76,158	197,755	-
Compensated absences	77,292	-	-	77,292	-
Totals	<u>\$ 1,468,127</u>	<u>\$ -</u>	<u>\$ 161,632</u>	<u>\$ 1,306,495</u>	<u>\$ 87,474</u>

**Discretely Presented Component Unit**

The ABC Board borrowed money from a local bank for store refurbishment and equipment. Interest, only, is to be repaid through March. Short-term loans are expected to be refinanced in March, 2014. Amount considered short and long-term, based on the foregoing are reflected in the schedule below. Loan is to be amortized over 15 years with a balloon in 5 years at 6.25% interest, payable monthly. Advances were collateralized by trust deeds on certain real estate.

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 110,983	\$ 4,379	\$ 115,362
Total	<u>\$ 110,983</u>	<u>\$ 4,379</u>	<u>\$ 115,362</u>

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 4 - Summary Disclosure of Significant Contingencies**

Federal and State Assisted Programs

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

Commitments

The Town had no material contractual commitments at year end.

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 insured 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 the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the 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. Settled claims have not exceeded coverage in any of the past three fiscal years.

In accordance with G.S. 159-29, the finance officer and tax collector are performance bonded, individually, in the amount of \$50,000. All other employees in a position of trust are covered under a blanket insurance policy to \$50,000.

**Town of Pembroke, North Carolina**  
**Notes to the Financial Statements (continued)**  
**June 30, 2018**

**Note 4 - Summary Disclosure of Significant Contingencies (continued)**

Risk Management (continued)

The Town of Pembroke ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC Board also has liquor legal liability coverage. Claims have not exceeded coverage during this last fiscal year, after a four-year hiatus in operations. The town carries no flood insurance since no assets are located in a flood designated area. The general obligation bonds issued to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All bonds are collateralized by the faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due. The TDA insurance coverage is limited to a blanket insurance policy of \$50,000 on the Town's Finance officer, separate and distinct from the Town, since it has no capital assets, debt or employees.

**Note 5 – 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>	\$ 1,534,356
Less:	
Inventories	-
Stabilization by State Statute	339,163
Streets	1,676
Subsequent year's expenditures	-
Remaining Fund Balance	1,193,517

**Note 6 – Subsequent Events**

Subsequent events were evaluated through November 12, 2018, which is the date the financial statements were available to be issued.

**Note 7 – Change in Accounting Principles/Restatement**

The Town implemented Governmental Accounting Standards Board (GASB) 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). Beginning deferred outflows and inflows of resources associated with the implementation were excluded from the restatement. As a result, net position for the governmental activities decreased \$1,625,743.

## **Required Supplementary Financial Data**

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

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



**Town of Pembroke, North Carolina**  
**Town of Pembroke's Proportionate Share of Net Pension Liability (Asset)**  
**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>
Pembroke's proportion of the net pension liability (asset) (%)	0.02780%	0.02746%	0.02700%	0.02670%	0.0255%
Pembroke's proportion of the net pension liability (asset) (\$)	\$ 424,707	\$ 582,793	\$ 121,174	\$ (157,462)	\$ 307,373
Pembroke's covered-employee payroll	\$ 1,559,331	\$ 1,491,773	\$ 1,461,105	\$ 1,375,815	\$ 1,447,779
Pembroke's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	27.24%	39.07%	8.29%	(11.45%)	21.23%
Plan fiduciary net position as a percentage of the total pension liability	94.18%	91.47%	98.09%	102.64%	94.35%

**Town of Pembroke, North Carolina**  
**Town of Pembroke'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	\$ 117,404	\$ 118,748	\$ 103,164	\$ 105,107	\$ 98,231
Contributions in relation to the contractually required contribution	<u>117,404</u>	<u>118,748</u>	<u>103,164</u>	<u>105,107</u>	<u>98,231</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Pembroke's covered-employee payroll	\$ 1,449,612	\$ 1,559,331	\$ 1,491,773	\$ 1,461,105	\$ 1,375,815
Contributions as a percentage of covered-employee payroll	8.10%	7.62%	6.92%	7.11%	7.14%

**Town of Pembroke, North Carolina**  
**Schedule of Changes in Total Pension Liability**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2018**

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 258,643	\$ 254,792
Service cost	15,563	15,546
Interest on the total pension liability	9,665	8,856
Changes of benefit terms	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(10,829)	-
Changes of assumptions or other inputs	18,791	(7,084)
Benefit payments	(16,512)	(13,467)
Other changes	-	-
Ending balance of the total pension liability	<u>\$ 275,321</u>	<u>\$ 258,643</u>

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

**Town of Pembroke, North Carolina**  
**Schedule of Total Pension Liability as a Percentage of Covered Payroll**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2018**

	<b>2018</b>	<b>2017</b>
Total pension liability	\$ 275,321	\$ 258,643
Covered payroll	581,601	597,173
Total pension liability as a percentage of covered payroll	47.34%	43.31%

Notes to the schedules:

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

**Town of Pembroke, North Carolina**  
**Schedule of Changes in the Total OPEB Liability and Related Ratios**  
**June 30, 2018**

<b>Total OPEB Liability</b>	<b>2018</b>
Service cost	\$ 109,657
Interest	62,765
Changes of benefit terms	-
Differences between expected and actual experience	17,072
Changes of assumptions or other inputs	(231,787)
Benefit payments	(54,845)
<b>Net change in total OPEB liability</b>	<b>(97,138)</b>
<b>Total OPEB liability - beginning</b>	<b>2,112,439</b>
<b>Total OPEB liability - ending</b>	<b>\$ 2,015,301</b>
Covered payroll	\$ 1,219,465
Total OPEB liability as a percentage of covered payroll	165.26%

Notes to the schedules:

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:

<b><u>Fiscal Year</u></b>	<b><i>Rate</i></b>
2018	3.56%

## **Individual Fund Statements and Schedules**

**Town of Pembroke, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance –**  
**Budget and Actual**  
**For the Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
<b>Ad Valorem taxes</b>			
Current year	\$	\$ 1,116,344	\$
Prior years		75,567	
Tax penalties		16,925	
Tax discounts		(5,232)	
<b>Total</b>	<u>1,191,605</u>	<u>1,203,604</u>	<u>11,999</u>
<b>Other taxes and licenses</b>			
Local sales tax		775,757	
Privilege licenses		12,210	
<b>Total</b>	<u>787,967</u>	<u>787,967</u>	<u>-</u>
<b>Unrestricted intergovernmental</b>			
Payments in lieu of taxes		28,244	
Utility franchise tax		257,971	
ABC store profit distribution		20,000	
Beer and wine tax		13,726	
<b>Total</b>	<u>317,697</u>	<u>319,941</u>	<u>2,244</u>
<b>Restricted intergovernmental</b>			
Powell bill allocation		93,509	
FEMA Grant		51,523	
Courtroom facility		4,522	
School resource officer reimbursement		43,323	
<b>Total</b>	<u>192,876</u>	<u>192,877</u>	<u>1</u>
<b>Sales and services</b>			
Sanitation fees		551,427	
<b>Total</b>	<u>551,427</u>	<u>551,427</u>	<u>-</u>
<b>Investment earnings</b>	<u>5,489</u>	<u>5,489</u>	<u>-</u>
<b>Miscellaneous</b>			
Fire protection service fee		15,971	
Police donations and park sponsorships		5,935	
Park revenue and fees		58,509	
U. S. Cellular lease		14,283	
American Towers lease		27,883	
Alltel Corporation		38,405	
Bellsouth lease		17,269	
Traffic and noise violations		300	
Golf-cart permits		23,940	
Miscellaneous income		22,489	
<b>Total</b>	<u>236,984</u>	<u>224,984</u>	<u>(12,000)</u>
<b>Total revenues</b>	<u>\$ 3,284,045</u>	<u>\$ 3,286,289</u>	<u>\$ 2,244</u>

**Town of Pembroke, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance –**  
**Budget and Actual (continued)**  
**For the Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b><u>Expenditures:</u></b>			
<b>General Government</b>			
<b>Governing body</b>			
Board remuneration and benefits	\$	\$ 26,868	\$
Professional fees		64,643	
Travel		32,599	
Dues and subscriptions		5,178	
Insurance and bonds		20,008	
Miscellaneous expense		4,157	
<b>Total</b>	<u>153,453</u>	<u>153,453</u>	<u>-</u>
<b>Administration</b>			
Salaries and benefits		92,892	
Professional service		36,391	
Telephone and postage		17,607	
Travel and school		5,563	
Maintenance and repairs - equipment		2,448	
Maintenance and repairs - automobiles		30	
Supplies - automobiles		760	
Supplies - departmental		33,066	
Dues and subscriptions		1,234	
Insurance and bonds		9,992	
Capital outlay		-	
Miscellaneous		4,421	
<b>Total</b>	<u>204,405</u>	<u>204,404</u>	<u>1</u>
<b>Courthouse</b>			
Postage and telephone		984	
Utilities		1,806	
Rent		14,350	
<b>Total</b>	<u>17,140</u>	<u>17,140</u>	<u>-</u>
<b>Public buildings and grounds</b>			
Utilities		35,641	
Maintenance and repairs		110,280	
<b>Total</b>	<u>145,922</u>	<u>145,921</u>	<u>1</u>
<b>Total general government</b>	<u>\$ 520,920</u>	<u>\$ 520,918</u>	<u>\$ 2</u>



**Town of Pembroke, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance –**  
**Budget and Actual (continued)**  
**For the Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b><u>Expenditures (continued):</u></b>			
<b>Public safety</b>			
<b>Police</b>			
Salaries and benefits	\$	\$ 870,193	\$
Telephone and postage		20,146	
Travel and schools		3,994	
Maintenance and repairs - equipment		14,435	
Maintenance and repairs - vehicles		15,389	
Supplies - vehicles		47,780	
Supplies - departmental		52,576	
Uniforms		17,457	
Insurance and bonds		38,401	
Capital outlay		63,407	
Miscellaneous expense		47,341	
<b>Total</b>	<u>1,191,119</u>	<u>1,191,119</u>	<u>-</u>
<b>Fire department</b>			
Salaries and benefits		12,926	
Telephone and postage		5,608	
Utilities		6,493	
Travel		1,119	
Maintenance and repairs - equipment		10,714	
Maintenance and repairs - vehicles		15,167	
Supplies - vehicles		1,117	
Supplies - departmental		49,979	
Dues and subscriptions		2,565	
Insurance and bonds		8,529	
Miscellaneous expense		497	
Capital outlay		-	
<b>Total</b>	<u>114,715</u>	<u>114,714</u>	<u>1</u>
<b>Contribution to rescue squad</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Total public safety</b>	<u>\$ 1,305,834</u>	<u>\$ 1,305,833</u>	<u>\$ 1</u>

**Town of Pembroke, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance –**  
**Budget and Actual (continued)**  
**For the Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b><u>Expenditures (continued):</u></b>			
<b>Transportation</b>			
<b>Streets</b>			
Utilities	\$	\$ 50,331	\$
Maintenance and repairs - equipment		5,609	
Supplies - vehicles		20,812	
Supplies - departmental		30,117	
Miscellaneous		10,592	
Capital outlay		32,693	
Insurance and bonds		7,519	
<b>Total</b>	<u>157,675</u>	<u>157,673</u>	<u>2</u>
<b>Powell Bill</b>			
Contracted services		100,779	
Insurance and bonds		9,369	
<b>Total</b>	<u>110,148</u>	<u>110,148</u>	<u>-</u>
<b>Total transportation</b>	<u>267,823</u>	<u>267,821</u>	<u>2</u>
<b>Environmental protection</b>			
Contractual services		390,773	
Landfill fees		85,030	
<b>Total environmental protection</b>	<u>475,803</u>	<u>475,803</u>	<u>-</u>
<b>Cultural and recreational</b>			
<b>Recreation</b>			
Salaries and benefits		136,745	
Telephone and postage		5,196	
Utilities		18,224	
Travel		1,614	
Maintenance and repair		32,371	
Supplies - vehicles		837	
Supplies - departmental		71,790	
Laundry		889	
Contracted services		24,023	
Insurance and bonding		11,232	
Dues and subscriptions		290	
Miscellaneous		4,190	
<b>Total</b>	<u>307,401</u>	<u>307,401</u>	<u>-</u>
<b>Contribution to county library</b>	<u>\$ 21,000</u>	<u>\$ 21,000</u>	<u>\$ -</u>

**Town of Pembroke, North Carolina**  
**General Fund**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance –**  
**Budget and Actual (continued)**  
**For the Year Ended June 30, 2018**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b><u>Expenditures (continued):</u></b>			
<b>Support of charities and cultural events</b>			
Miscellaneous contributions	\$ 26,076	\$ 26,076	\$ -
<b>Total</b>	<u>26,076</u>	<u>26,076</u>	<u>-</u>
<b>Total cultural and recreational</b>	<u>354,477</u>	<u>354,477</u>	<u>-</u>
<b>Debt service</b>			
Principal retirement		207,860	
Interest and fees		77,483	
<b>Total debt service</b>	<u>285,343</u>	<u>285,343</u>	<u>-</u>
<b>Contingency</b>	<u>73,845</u>	<u>-</u>	<u>73,845</u>
<b>Total expenditures</b>	<u>3,284,045</u>	<u>3,210,195</u>	<u>73,850</u>
<b>Revenues over (under) expenditures</b>	<u>-</u>	<u>76,094</u>	<u>76,094</u>
<b>Other financing sources (uses)</b>			
Appropriated fund balance	-	-	
<b>Total other financing sources (uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>
<b>Net change in fund balance</b>	<u>\$ -</u>	<u>76,094</u>	<u>\$ 76,094</u>
<b>Fund balances - beginning of year</b>		<u>1,458,262</u>	
<b>Fund balances - end of year</b>		<u>\$ 1,534,356</u>	

**Town of Pembroke, North Carolina**  
**Combining Balance Sheet**  
**Non-Major Governmental Fund**  
**June 30, 2018**

	<u>Community Development Fund</u>
<b><u>Assets</u></b>	
Cash	\$ 21,753
Due from general fund	<u>-</u>
<b>Total assets</b>	<b><u><u>\$ 21,753</u></u></b>
 <b><u>Liabilities and Fund Balance</u></b>	
Accounts payable	<u>\$ -</u>
<b>Total liabilities</b>	<u>-</u>
Fund balance	<u>21,753</u>
<b>Total liabilities and fund balance</b>	<b><u><u>\$ 21,753</u></u></b>

**Town of Pembroke, North Carolina**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balance -**  
**Budget and Actual**  
**Non-Major Governmental Fund**  
**From Inception and for the Year Ended June 30, 2018**

	<u>Project Authorization</u>	<u>Community Development Fund</u>		
		<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>
<b><u>Revenues</u></b>				
Building Reuse and restoration				
CDBG	\$ 64,832	\$ 25,204	\$ 11,792	\$ 36,996
Housing improvement fund				
Owner contributions	-	30,977	-	30,977
Investment earnings	-	193	-	193
<b>Total revenue</b>	<u>64,832</u>	<u>56,374</u>	<u>11,792</u>	<u>68,166</u>
<b><u>Expenditures</u></b>				
Building Reuse and restoration				
Construction and administration	64,832	25,204	11,792	36,996
Housing improvement fund				
Construction and administration	-	9,417	-	9,417
<b>Total expenditures</b>	<u>64,832</u>	<u>34,621</u>	<u>11,792</u>	<u>46,413</u>
<b>Revenues over (under) expenditures</b>	<u>\$ -</u>	<u>\$ 21,753</u>	-	<u>\$ 21,753</u>
<b>Fund balance - beginning of year</b>			<u>21,753</u>	
<b>Fund balance - end of year</b>			<u>\$ 21,753</u>	

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b><u>Revenues:</u></b>			
<b>Operating revenue</b>			
Charges for services -			
Water and sewer revenue	\$	\$ 2,607,110	\$
Taps and connections		6,450	
Reconnection fees		6,500	
Capacity replacement fee		106,220	
Miscellaneous income		199,125	
<b>Total operating revenues</b>	<u>2,925,405</u>	<u>2,925,405</u>	<u>-</u>
<b>Non-operating revenues</b>			
Interest income	<u>9,167</u>	<u>9,167</u>	<u>-</u>
<b>Total revenues</b>	<u>2,934,572</u>	<u>2,934,572</u>	<u>-</u>
<b><u>Expenditures:</u></b>			
<b>Public works administration</b>			
Salaries and benefits		414,601	
Professional services		35,677	
Telephone and postage		9,952	
Utilities		7,741	
Travel and school		3,670	
Maintenance and repairs -equipment		16,339	
Maintenance and repairs - vehicles		8,602	
Supplies - vehicles		10,643	
Supplies - departmental		42,723	
Laundry		1,150	
Contractual services		907	
Dues and subscriptions		975	
Insurance and bonds		10,967	
Capital outlay		3,950	
Miscellaneous		1,847	
<b>Total public works administration</b>	<u>\$ 569,746</u>	<u>\$ 569,744</u>	<u>\$ 2</u>

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b><u>Expenditures (continued):</u></b>			
<b>Water department</b>			
Salaries and benefits	\$	\$ 333,553	\$
Professional services		2,861	
Postage and telephone		12,624	
Utilities		30,503	
Travel		1,640	
Maintenance and repairs - equipment		126,096	
Maintenance and repairs - vehicles		655	
Supplies - vehicles		9,752	
Supplies - departmental		86,799	
Laundry		2,453	
Dues and subscriptions		800	
Insurance and bonding		16,521	
Capital outlay		106,995	
Miscellaneous		281	
<b>Total water department</b>	<u>731,533</u>	<u>731,533</u>	<u>-</u>
<b>Sewer department</b>			
Salaries and benefits		415,086	
Professional services		22,175	
Postage and telephone		12,808	
Utilities		121,103	
Travel		598	
Maintenance and repairs - equipment		88,048	
Maintenance and repairs - vehicles		599	
Supplies - departmental		131,703	
Laundry		2,181	
Contractual service		20,187	
Dues and subscriptions		2,095	
Insurance and bonding		26,078	
Sludge removal		111,903	
Miscellaneous		716	
Capital outlay		103,078	
<b>Total sewer department</b>	<u>\$ 1,058,358</u>	<u>\$ 1,058,358</u>	<u>\$ -</u>

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

	<b>Budget</b>	<b>Actual</b>	<b>Variance Positive (Negative)</b>
<b><u>Expenditures (continued):</u></b>			
<b>Contingency</b>	\$ 434,430	\$ -	\$ 434,430
<b>Debt service</b>			
Principal retirement		85,474	
Interest		55,030	
<b>Total debt service</b>	140,505	140,504	1
<b>Total expenditures</b>	2,934,572	2,500,139	434,433
<b>Revenues over (under) expenditures</b>	-	434,433	434,433
<b>Other financing sources (uses)</b>			
Transfer from other funds	-	-	-
<b>Revenues and other financing sources over (under) expenditures and other financing uses</b>	\$ -	\$ 434,433	\$ 434,433

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

<b>Revenues over (under) expenditures</b>	\$ 434,433
<b>Reconciling items</b>	
Principal retirement	85,474
Capital outlay	214,023
Decrease in deferred outflows of resources - pensions	(90,398)
Decrease in net pension liability	76,158
Decrease in deferred inflows of resources - pensions	1,930
Depreciation	(478,832)
Capital contributions	392,283
<b>Change in net position</b>	\$ 635,071



**Town of Pembroke, North Carolina**  
**Water and Sewer Capital Projects Fund**  
**Schedule of Revenues and Expenditures**  
**Budget and Actual (Non-GAAP) (continued)**  
**From Inception and for the Year Ended June 30, 2018**

	<u>Project Authorization</u>	<u>Actual</u>		<u>Total to Date</u>
		<u>Prior Years</u>	<u>Current Year</u>	
<b><u>Revenues - Water project</u></b>				
Restricted intergovernmental Brownsfields Assessment Cooperative				
Agreement - EPA Grant	\$ 200,000	\$ 199,274	\$ -	\$ 199,274
Revitalization grant	100,000	96,107	-	96,107
Golden Leaf Pretreatment grant	1,468,237	854,962	108,573	963,535
CDGB Grant 13-E-2645	456,638	456,638	-	456,638
Local match	20,000	20,000	-	20,000
NC Dept of Commerce - Rural Economic Division				
Downtown revitalization	100,000	-	100,000	100,000
UNCP Stormwater project	893,291	-	117,655	117,655
NC water infrastructure grant	150,000	-	66,055	66,055
<b>Total revenues</b>	<u>3,388,166</u>	<u>1,626,981</u>	<u>392,283</u>	<u>2,019,264</u>
<b><u>Expenditures - Sewer improvements</u></b>				
Brownsfields Assessment Cooperative				
Agreement - EPA Grant	200,000	197,972	-	197,972
Revitalization grant	100,000	62,010	1,230	63,240
Pretreatment equipment	1,347,575	1,306,758	-	1,306,758
Construction contract	450,300	-	-	-
Engineering design	100,000	100,000	-	100,000
Construction and project management	47,000	33,415	-	33,415
NC Dept of Commerce - Rural Economic Division				
Downtown revitalization	100,000	-	-	-
UNCP Stormwater project:				
Design	140,000	-	120,313	120,313
Construction	753,291	-	-	-
Waste water asset inventory project	150,000	3,387	110,658	114,045
<b>Total expenditures</b>	<u>3,388,166</u>	<u>1,703,542</u>	<u>232,201</u>	<u>1,935,743</u>
<b>Revenues and other financing sources over (under) expenditures</b>	<u>\$ -</u>	<u>\$ (76,561)</u>	<u>\$ 160,082</u>	<u>\$ 83,521</u>

## **Other Schedules**

**Town of Pembroke, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2018**

<u>Fiscal Year</u>	<u>Uncollected Balances June 30, 2017</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balances June 30, 2018</u>
2017-2018	\$ -	\$ 1,204,203	\$ 1,119,964	\$ 84,239
2016-2017	70,497	-	45,305	25,192
2015-2016	27,085	-	16,501	10,584
2014-2015	9,224	-	4,156	5,068
2013-2014	6,755	-	2,579	4,176
2012-2013	8,481	-	4,238	4,243
2011-2012	8,689	-	1,965	6,724
2010-2011	7,160	-	814	6,346
2009-2010	4,081	-	(418)	4,499
2008-2009	3,888	-	427	3,461
2007-2008	10,134	-	10,134	-
	<u>\$ 155,994</u>	<u>\$ 1,204,203</u>	<u>\$ 1,205,665</u>	<u>154,532</u>

Less: allowance for uncollected accounts

-

**Ad valorem taxes receivable - net**

\$ 154,532

**Reconciliation to revenues**

Ad valorem taxes - General Fund	\$ 1,203,604
Reconciling items -	
Penalties collected	(16,925)
Discounts allowed	5,232
Other credits and refunds	24,068
Taxes written off per statute penalty and interest collected	<u>(10,314)</u>
<b>Total collections and credits</b>	<u>\$ 1,205,665</u>

**Town of Pembroke, North Carolina**  
**Analysis of Current Year Tax Levy –**  
**Town-wide Levy**  
**For the Year Ended June 30, 2018**

	Town-wide			Total Levy	
	Property Valuation	Rate (per \$100)	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original levy</b>					
Real and personal property less senior citizen and religious exemptions	\$ 176,752,656	0.64	\$1,131,217	\$1,131,217	\$ -
Vehicles	<u>11,404,063</u>	0.64	<u>72,986</u>	<u>-</u>	<u>72,986</u>
<b>Net levy</b>	188,156,719	0.64	1,204,203	1,131,217	72,986
Uncollected taxes - June 30, 2018			<u>84,239</u>	<u>83,011</u>	<u>1,228</u>
<b>Current year taxes collected</b>			<u>\$1,119,964</u>	<u>\$1,048,206</u>	<u>\$ 71,758</u>
<b>Current levy collection percentage</b>			<u>93.00%</u>	<u>92.66%</u>	<u>98.32%</u>

## **Compliance Section**

# S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

## MEMBERS

American Institute of CPAs

N. C. Association of CPAs

### **Report on Internal Control Over Financial Reporting and on Compliance And Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards***

#### Independent Auditor's Report

To the Honorable Mayor and  
Board of Town Commissioners  
Town of Pembroke, 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 discretely present component units, each major fund, and the aggregate remaining fund information of the Town of Pembroke, 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 Pembroke, North Carolina's basic financial statements, and have issued our report thereon dated November 12, 2018. The financial statements of the Pembroke ABC Board and Pembroke Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for a 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.

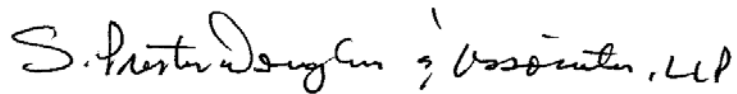
Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that were not identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Pembroke, North Carolina'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink that reads "S. Porter Douglas, III, CPA". The signature is written in a cursive style.

Lumberton, North Carolina  
November 12, 2018