

**GATES COUNTY, NORTH CAROLINA**

**ANNUAL FINANCIAL REPORT**

**FOR THE YEAR ENDED JUNE 30, 2018**

**Prepared by:  
Department of Finance**

**Submitted by:  
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County Manager**

**GATES COUNTY, NORTH CAROLINA  
ANNUAL FINANCIAL REPORT  
FOR THE YEAR ENDED JUNE 30, 2018**

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## **FINANCIAL SECTION**

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## INDEPENDENT AUDITOR'S REPORT

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**Members of the Board of Commissioners  
Gates County, 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 unit, each major fund, and the aggregate remaining fund information of **Gates County, North Carolina (the "County")**, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the County'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 did not audit the financial statements of the Gates County ABC Board, which represents 100% of the assets, net position, and revenues of the discretely presented component unit. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Gates County ABC Board, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Gates County ABC Board 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 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 presentation of the financial statements.

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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 and the report of the other auditors, 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 unit, each major fund, and the aggregate remaining fund information of Gates County, North Carolina as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof and the budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Notes 10 and 14, the County implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017. This standard significantly changed the accounting for the County's total other postemployment benefits (OPEB) liability and related disclosures. Our opinions are not modified with respect to this matter.

***Other Matters***

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Schedule of Changes in the County's Total OPEB Liability and Related Ratios – OPEB Plan, the Schedule of Changes in Total Pension Liability – LEOSSA, the Schedule of Total Pension Liability as a Percentage of Covered Payroll – LEOSSA, the County's Proportionate Share of Net Pension Liability (Asset) – LGERS, the Schedule of the County's Contributions – LGERS, the County's Proportionate Share of Net Pension Liability (Asset) – Register of Deeds Supplemental Pension Fund, and the Schedule of the County's Contributions – Register of Deeds Supplemental Pension Fund, on pages 73, 74, 75, 76, 77, 79, and 80, respectively, be presented to supplement the basic financial statements. Such information, although not a 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.

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*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the County's basic financial statements. The combining and individual fund statements and schedules, and the schedule of expenditures of federal and state awards, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated June 25, 2019 on our consideration of the County's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the County's 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 the County's internal control over financial reporting and compliance.

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
June 25, 2019

## Management's Discussion and Analysis

As management of Gates County, we offer readers of Gates County's financial statements this narrative overview and analysis of the financial activities of Gates County for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in the County's financial statements, which follow this narrative.

### Financial Highlights

- The assets and deferred outflows of resources of Gates County exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$12,759,301 (*net position*).
- The County's total net position increased by \$1,320,901.
- As of the close of the current fiscal year, Gates County's total governmental funds reported combined ending fund balances of \$3,466,849 a decrease of \$1,543,210 from the restated June 30, 2017 fund balance.
- At the end of the current fiscal year, total fund balance for the General Fund was \$2,566,567, a decrease of \$1,948,737 from the restated June 30, 2017 balance; \$207,539 of this fund balance amount represents fund balance for the Revaluation and Register of Deeds funds that are consolidated into the General Fund as part of GASB 54 reporting requirements and \$1,174,133 of the fund balance is restricted by the State Stabilization Requirements.

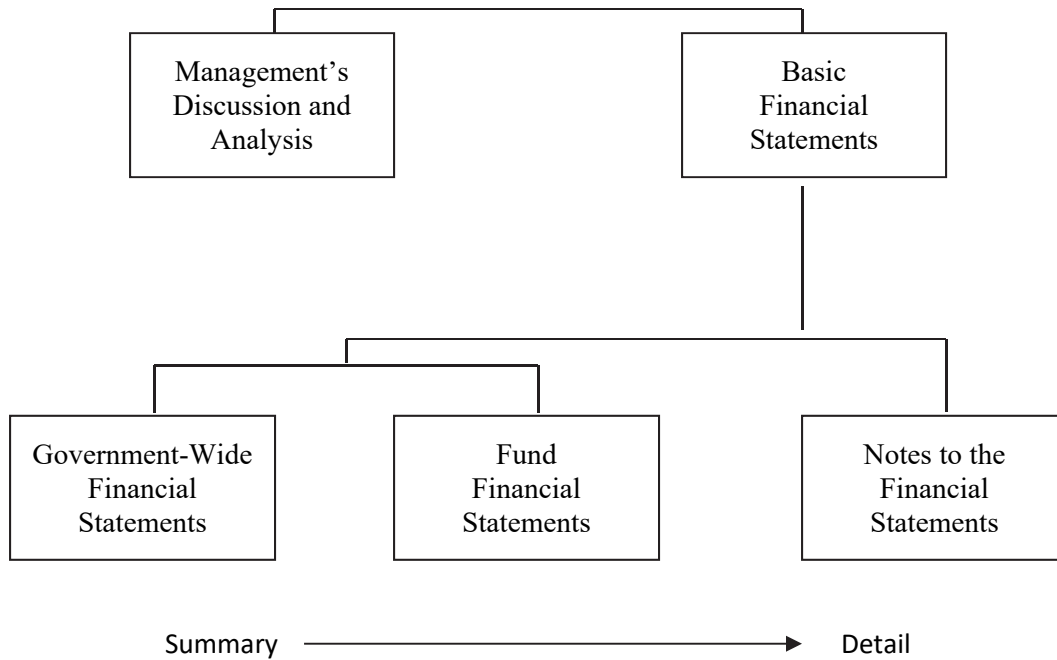
### Overview of the Financial Statements

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



## Required Components of Annual Financial Report

Figure 1



### Basic 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 concerning the County's financial status.

The next statements are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County's government, providing more detail than the government-wide statements. There are four parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, 3) the proprietary fund statements, and 4) the fiduciary and agency fund statements.

The final section of the basic financial statements is the **Notes to the Financial Statements**. The notes to the financial statements offer a detailed explanation about various information contained in the statements. Following the notes, **Supplemental Information** provides details of the County's nonmajor governmental funds, all of which are combined in one column on the basic financial statements. Budgetary information required by the North Carolina General Statutes can also be found in this part of the statements.

Following the notes is the required supplemental information. This section contains funding information about the County's pension plans.

## **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide the reader with a broad overview of the County's finances in a manner similar to a private-sector business.

The Statement of Net Position presents information on all of Gates County's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of Gates County is improving or deteriorating.

The Statement of Activities presents information showing how the County's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in the statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused, vacation leave).

Both of the government-wide financial statements distinguish functions of Gates County that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of Gates County include general governmental, public safety, economic and physical development, human services, culture and recreation, and education. The business-type activities of Gates County are the solid waste (landfill) operations and the Water Fund.

The government-wide financial statements include not only Gates County itself (known as the primary government), but also the Gates County ABC Board for which Gates County is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages 13-15 of this report.

## **Fund Financial Statements**

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. Gates County, like other State and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All funds of Gates County can be divided into two categories: governmental funds and proprietary funds.

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

Gates County 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 County, the management of the County, and the decisions of the Board of Commissioners about which services to provide and how to pay for them. It also authorizes the County to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the County complied with the budget ordinance and whether or not the County succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the final budget as amended by the Board; 2) the actual resources, charges to appropriations, and ending balances in the General Fund; 3) the difference or variance between the final budget and the actual resources and charges; and 4) the comparative prior year actuals. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

**Proprietary Funds.** Gates County maintains one type of proprietary fund: Enterprise Fund. Enterprise funds report the same functions presented as business-type activities in the government-wide financial statements. Gates County uses an enterprise fund to account for its solid waste operations and water operations.

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 solid waste and water operations.

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government.

**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 beginning at page 24 of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning Gates County's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information immediately follows the notes to the financial statements.

## Government-Wide Financial Analysis

### Gates County's Net Position

**Figure 2**

	Governmental Activities		Business-type Activities		Total	
	2018	2017 - restated	2018	2017 - restated	2018	2017 - restated
Current and other assets	\$ 4,253,651	\$ 5,750,342	\$ 2,867,417	\$ 2,172,225	\$ 7,121,068	\$ 7,922,567
Capital assets	7,814,154	6,804,057	6,544,808	5,719,039	14,358,962	12,523,096
Total assets	12,067,805	12,554,399	9,412,225	7,891,264	21,480,030	20,445,663
Total deferred outflows of resources	605,593	882,910	47,117	59,519	652,710	942,429
Long-term liabilities	8,019,404	9,199,911	302,935	448,251	8,322,339	9,648,162
Other liabilities	386,183	171,268	138,844	49,810	525,027	221,078
Total liabilities	8,405,587	9,371,179	441,779	498,061	8,847,366	9,869,240
Total deferred inflows of resources	499,767	77,600	26,306	2,852	526,073	80,452
Net position:						
Net investment in capital asstes	6,869,703	5,748,069	6,544,808	5,719,039	13,414,511	11,467,108
Restricted	2,281,954	1,468,139	-	-	2,281,954	1,468,139
Unrestricted	(5,383,613)	(3,227,678)	2,446,449	1,730,831	(2,937,164)	(1,496,847)
Total net position	\$ 3,768,044	\$ 3,988,530	\$ 8,991,257	\$ 7,449,870	\$ 12,759,301	\$ 11,438,400

As noted earlier, net position, over time, may serve as a useful indicator of a government's financial position. For Gates County, assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$12,759,301 at the close of the most recent fiscal year. The County's net position increased by \$1,320,901 for the fiscal year ended June 30, 2018.

One of the largest portions of Gates County's net position reflects the County's net investment in capital assets (e.g., land, buildings, machinery and equipment). The County reported net investment in capital assets of \$13,414,511, which represents 105% of the County's total net position. Gates County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Gates County's net investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to repay these liabilities.

At the end of the current fiscal year, Gates County is reporting unrestricted net position in the amount of (\$2,937,164) for the government as a whole. It should be noted that the County is carrying roughly \$1.7 million in debt related to schools. Schools are not recorded as assets on the County's books; they are recorded as assets by the Board of Education.

**Gates County's Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Program revenues						
Charges for services	\$ 639,942	\$ 261,661	\$ 2,040,867	\$ 1,724,563	\$ 2,680,809	\$ 1,986,224
Operating grants and contributions	1,767,110	2,153,360	-	-	1,767,110	2,153,360
Capital grants and contributions	371,345	114,433	-	-	371,345	114,433
General revenues						
Property taxes	7,073,900	6,837,996	-	-	7,073,900	6,837,996
Local option sales tax	1,956,027	2,508,401	-	-	1,956,027	2,508,401
Other taxes	-	275,825	-	-	-	275,825
Other items	-	62,967	42,683	28,602	42,683	91,569
Interest earnings	10,189	16,920	14,974	17,380	25,163	34,300
Total revenues	11,818,513	12,231,563	2,098,524	1,770,545	13,917,037	14,002,108
Expenses						
General government	1,542,364	1,852,218	-	-	1,542,364	1,852,218
Public safety	2,429,425	2,544,795	-	-	2,429,425	2,544,795
Human services	2,384,442	2,114,509	-	-	2,384,442	2,114,509
Education	2,714,000	2,968,896	-	-	2,714,000	2,968,896
Economic and physical development	1,292,312	908,792	-	-	1,292,312	908,792
Culture and recreation	365,919	376,058	-	-	365,919	376,058
Interest on long-term debt	83,057	79,328	-	-	83,057	79,328
Landfill	-	-	931,562	872,819	931,562	872,819
Water	-	-	853,055	1,188,810	853,055	1,188,810
Total expenses	10,811,519	10,844,596	1,784,617	2,061,629	12,596,136	12,906,225
Increase (decrease) before transfers	1,006,994	1,386,967	313,907	(291,084)	1,320,901	1,095,883
Transfers	(1,227,480)	-	1,227,480	-	-	-
Change in net position	(220,486)	1,386,967	1,541,387	(291,084)	1,320,901	1,095,883
Net position, beginning	6,281,130	4,871,072	7,596,352	7,887,436	13,877,482	12,758,508
Restatements	(2,292,600)	23,091	(146,482)	-	(2,439,082)	23,091
Net position, ending	\$ 3,768,044	\$ 6,281,130	\$ 8,991,257	\$ 7,596,352	\$ 12,759,301	\$ 13,877,482

**Governmental Activities.** Governmental activities decreased the County's net position by \$220,486. Key elements of this decrease are as follows:

- Increases in the transfers from General Fund to the business-type activities. The transfers out to the enterprise fund increased over \$1.2 million in the fiscal year ended June 30, 2018.
- Increases in the other postemployment benefits (OPEB) liability increased expense of governmental activities by \$373,355.

**Business-Type Activities.** Business-type activities increased Gates County's net position by \$1,541,387. This increase is predominantly driven by the current year transfers of \$1,227,480 from the governmental activities.

## Financial Analysis of the County's Funds

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

**Governmental Funds.** The focus of Gates County's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Gates County's financing requirements. Specifically, fund balance available for appropriation can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, Gates County's governmental funds reported combined ending fund balances of \$3,466,849, a decrease of \$1,543,210 in comparison with 2017. This decrease is attributable primarily to decreased fund balance in the General Fund, resulting from interfund transfers to the enterprise funds.

The General Fund is the principal operating fund of Gates County. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$993,675 while total fund balance for the General Fund was \$2,566,567. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 9.02% of total General Fund expenditures (excluding transfers), while total fund balance represents 23.3% of that same amount. Available fund balance, which is total fund balance less non-spendable fund balance and less stabilization by State statute amounts, totaled \$1,392,434 for the General Fund.

The School Capital Outlay Fund is used to account for the restricted revenues which are restricted to use on the school district improvements. The transfers to the fund exceeded the outlays by \$561,892, bringing the ending, restricted fund balance to \$833,445. The funds will be used on future capital projects for the school district.

### General Fund Budgetary Highlights

During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into 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. Total amendments to the General Fund increased revenues by approximately \$342,762 (2.9%).

**Proprietary Funds.** Gates County's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net position at June 30, 2018 was \$145,060 and \$2,301,389 for the Landfill Fund and the Water Fund, respectively.

## Capital Asset and Debt Administration

**Capital Assets.** The County reported capital assets for its governmental and business-type activities of \$13,631,868 (net of accumulated depreciation) as of June 30, 2018. These assets include land buildings, other improvements, equipment, vehicles, and plant and systems.

### Gates County's Capital Assets

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	\$ 1,138,007	\$ 1,138,007	\$ 432,336	\$ 432,336	\$ 1,570,343	\$ 1,570,343
Construction in progress	1,355,633	469,162	2,281,237	1,436,188	3,636,870	1,905,350
Buildings and improvements	3,483,300	3,612,597	-	-	3,483,300	3,612,597
Other improvements	603,339	552,112	-	-	603,339	552,112
Plant and distribution systems	-	-	3,803,617	3,805,266	3,803,617	3,805,266
Equipment	727,094	607,396	-	2,462	727,094	609,858
Vehicles	506,781	424,783	27,618	42,787	534,399	467,570
Total capital assets	<u>\$ 7,814,154</u>	<u>\$ 6,804,057</u>	<u>\$ 6,544,808</u>	<u>\$ 5,719,039</u>	<u>\$ 14,358,962</u>	<u>\$ 12,523,096</u>

Additional information on Gates County's capital assets can be found in the notes to the financial statements.

**Long-Term Debt.** At the end of the current fiscal year, Gates County had no bonded debt outstanding.

### Gates County's Long-Term Obligations

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2018	2017 - restated	2018	2017 - restated	2018	2017 - restated
Notes payable	\$ 2,677,785	\$ 3,222,655	\$ -	\$ -	\$ 2,677,785	\$ 3,222,655
Compensated absences	278,987	350,786	24,553	20,320	303,540	371,106
Net pension liability (LGERS)	643,647	918,942	56,050	61,577	699,697	980,519
Net pension liability (LEOSSA)	186,983	167,183	-	-	186,983	167,183
Net OPEB liability	4,198,921	4,268,113	222,332	366,354	4,421,253	4,634,467
Total capital assets	<u>\$ 7,986,323</u>	<u>\$ 8,927,679</u>	<u>\$ 302,935</u>	<u>\$ 448,251</u>	<u>\$ 8,289,258</u>	<u>\$ 9,375,930</u>

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue up to 8% of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Gates County is \$73,729,931.

More detailed information on Gates County's long-term debt and capital asset activity can be found in the notes to the financial statements.

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

- The tax rate for fiscal year ending 2019 will be \$0.76 per \$100 of assessed property value, the same rate at fiscal year ended June 30, 2018.
- Solid Waste fees will increase from \$15 a month to \$20 a month. This will be the first fee increase since July 1, 2006.

## **Budget Highlights for the Fiscal Year Ending June 30, 2019**

**Governmental Activities.** During fiscal year 2019, Gates County will continue to control the cost of government while growing revenue through property tax base and sales tax growth. The County will strive for continuous improvement and efficiency in all governmental service areas and update fiscal policies as appropriate.

**Enterprise Activities.** In fiscal year 2019 the water and sewer rates will remain steady. Solid Waste fees will increase to \$20 a month. Operation and maintenance of the respective systems (water, sewer, and solid waste) will continue. Repair work as necessary will take place on the system. Construction will continue on the new wastewater treatment plant.

## **Requests for Information**

This financial report is designed to provide a general overview of Gates County'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 directed to the Finance Officer or County Manager, Gates County, 200 Court Street, Gatesville, North Carolina 27938.



**GATES COUNTY, NORTH CAROLINA**

**STATEMENT OF NET POSITION  
JUNE 30, 2018**

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	Gates County ABC Board
<b>ASSETS</b>				
Cash and cash equivalents	\$ 2,702,979	\$ 2,692,694	\$ 5,395,673	\$ 63,805
Receivables, net of allowance for uncollectibles	46,394	160,667	207,061	-
Taxes receivable, net of allowance for uncollectibles	334,825	-	334,825	-
Due from other governments	962,466	4,228	966,694	-
Internal balances	21,107	(21,107)	-	-
Inventories	-	30,935	30,935	158,314
Prepaid items	-	-	-	2,120
Restricted cash and cash equivalents	171,015	-	171,015	-
Net pension asset	14,865	-	14,865	-
Capital assets:				
Non-depreciable	2,493,640	2,713,573	5,207,213	-
Depreciable, net of accumulated depreciation	5,320,514	3,831,235	9,151,749	543,597
Total assets	<u>12,067,805</u>	<u>9,412,225</u>	<u>21,480,030</u>	<u>767,836</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension related items	532,151	43,228	575,379	4,694
OPEB related items	73,442	3,889	77,331	-
Total deferred outflows of resources	<u>605,593</u>	<u>47,117</u>	<u>652,710</u>	<u>4,694</u>
<b>LIABILITIES</b>				
Accounts payable	125,640	103,488	229,128	37,727
Accrued liabilities	260,543	35,356	295,899	17,940
Interest payable	33,081	-	33,081	-
Installment notes, due within one year	548,093	-	548,093	-
Installment notes, due in more than one year	2,129,692	-	2,129,692	-
Compensated absences, due in one year	85,000	4,800	89,800	-
Compensated absences, due in more than one year	193,987	19,753	213,740	-
Total pension liability, due in more than one year	186,983	-	186,983	-
Net pension liability, due in more than one year	643,647	56,050	699,697	4,583
Total OPEB liability, due in more than one year	4,198,921	222,332	4,421,253	-
Total liabilities	<u>8,405,587</u>	<u>441,779</u>	<u>8,847,366</u>	<u>60,250</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Deferred tax revenue	22,842	-	22,842	-
OPEB related items	440,180	23,307	463,487	-
Pension related items	36,745	2,999	39,744	179
Total deferred inflows of resources	<u>499,767</u>	<u>26,306</u>	<u>526,073</u>	<u>179</u>
<b>NET POSITION</b>				
Net investment in capital assets	6,869,703	6,544,808	13,414,511	543,597
Restricted for:				
Stabilization by State Statute	1,174,133	-	1,174,133	-
Public safety	65,732	-	65,732	-
Human services	201,205	-	201,205	-
Community services	6,334	-	6,334	-
Education	833,445	-	833,445	-
Capital projects	1,105	-	1,105	-
Working capital	-	-	-	22,907
Unrestricted	(5,383,613)	2,446,449	(2,937,164)	145,597
Total net position	<u>\$ 3,768,044</u>	<u>\$ 8,991,257</u>	<u>\$ 12,759,301</u>	<u>\$ 712,101</u>

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

# GATES COUNTY, NORTH CAROLINA

## STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

<u>Functions/Programs</u>	<u>Expenses</u>	Program Revenues		
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
General government	\$ 1,542,364	\$ 86,378	\$ 107,865	\$ -
Public safety	2,429,425	477,763	-	308,940
Human services	2,384,442	66,751	1,277,178	-
Education	2,714,000	-	54,374	-
Economic development	1,292,312	9,050	327,693	62,405
Culture and recreation	365,919	-	-	-
Interest on long-term debt	83,057	-	-	-
Total governmental activities	10,811,519	639,942	1,767,110	371,345
Business-type activities:				
Landfill	931,562	726,690	-	-
Water	853,055	1,314,177	-	-
Total business-type activities	1,784,617	2,040,867	-	-
Total primary government	\$ 12,596,136	\$ 2,680,809	\$ 1,767,110	\$ 371,345
Component Unit:				
Gates County ABC Board	\$ 767,930	\$ 768,258	\$ -	\$ -
Total component unit	\$ 767,930	\$ 768,258	\$ -	\$ -

General revenues:

- Ad valorem taxes
- Sales and use taxes
- Investment earnings
- Gain on sale of capital assets
- Miscellaneous

Transfers

- Total general revenues
- Change in net position

Net position, beginning of year, restated

Net position, end of year

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

**Net (Expenses) Revenues and  
Changes in Net Position**

Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	Gates County ABC Board
\$ (1,348,121)	\$ -	\$ (1,348,121)	\$ (1,348,121)
(1,642,722)	-	(1,642,722)	(1,642,722)
(1,040,513)	-	(1,040,513)	(1,040,513)
(2,659,626)	-	(2,659,626)	(2,659,626)
(893,164)	-	(893,164)	(893,164)
(365,919)	-	(365,919)	(365,919)
(83,057)	-	(83,057)	(83,057)
<u>(8,033,122)</u>	<u>-</u>	<u>(8,033,122)</u>	<u>(8,033,122)</u>
-	(204,872)	(204,872)	(409,744)
-	461,122	461,122	922,244
-	256,250	256,250	512,500
<u>\$ (8,033,122)</u>	<u>\$ 256,250</u>	<u>\$ (7,776,872)</u>	<u>\$ (7,520,622)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 328</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 328</u>
\$ 7,073,900	\$ -	\$ 7,073,900	\$ -
1,956,027	-	1,956,027	-
10,189	14,974	25,163	-
-	7,344	7,344	-
-	35,339	35,339	-
<u>(1,227,480)</u>	<u>1,227,480</u>	<u>-</u>	<u>-</u>
<u>7,812,636</u>	<u>1,285,137</u>	<u>9,097,773</u>	<u>-</u>
<u>(220,486)</u>	<u>1,541,387</u>	<u>1,320,901</u>	<u>328</u>
<u>3,988,530</u>	<u>7,449,870</u>	<u>11,438,400</u>	<u>711,773</u>
<u>\$ 3,768,044</u>	<u>\$ 8,991,257</u>	<u>\$ 12,759,301</u>	<u>\$ 712,101</u>

**GATES COUNTY, NORTH CAROLINA**

**BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2018**

	<b>General Fund</b>	<b>School Capital Outlay Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Cash	\$ 2,642,352	\$ -	\$ 57,440	\$ 2,699,792
Taxes receivable, net	334,825	-	-	334,825
Accounts receivable	38,817	-	7,577	46,394
Due from other governments	954,836	823	6,807	962,466
Due from other funds	205,380	862,455	60,428	1,128,263
Restricted cash and cash equivalents	171,015	-	-	171,015
<b>Total assets</b>	<b>\$ 4,347,225</b>	<b>\$ 863,278</b>	<b>\$ 132,252</b>	<b>\$ 5,342,755</b>
<b>LIABILITIES</b>				
Accounts payable	\$ 117,647	\$ -	\$ 7,993	\$ 125,640
Accrued payroll and withholdings	260,543	-	-	260,543
Due to other funds	1,019,901	29,833	57,422	1,107,156
<b>Total liabilities</b>	<b>1,398,091</b>	<b>29,833</b>	<b>65,415</b>	<b>1,493,339</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Unavailable revenue - ad valorem taxes	285,067	-	-	285,067
Unavailable revenue - intergovernmental	74,658	-	-	74,658
Deferred revenue - prepaid taxes	22,842	-	-	22,842
<b>Total deferred inflows of resources</b>	<b>382,567</b>	<b>-</b>	<b>-</b>	<b>382,567</b>
<b>FUND BALANCES</b>				
Restricted:				
Stabilization by State Statute	1,174,133	-	-	1,174,133
Public safety	-	-	65,732	65,732
Education	-	833,445	-	833,445
Capital projects	-	-	1,105	1,105
Register of deeds	6,334	-	-	6,334
Tax revaluation	201,205	-	-	201,205
Assigned fund balance - 2019 budget appropriation	191,220	-	-	191,220
Unassigned	993,675	-	-	993,675
<b>Total fund balances</b>	<b>2,566,567</b>	<b>833,445</b>	<b>66,837</b>	<b>3,466,849</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 4,347,225</b>	<b>\$ 863,278</b>	<b>\$ 132,252</b>	

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	7,814,154
Some receivables are not available to pay for current-period expenditures and, therefore, are reported as unavailable revenue in the funds.	359,725
The net pension liability (assets), total pension liability, and related deferred inflows and outflows of resources are resources related to the County's defined benefit pension plans which are not expected to be liquidated with expendable available financial resources and, therefore, are not reported in the funds.	(320,359)
Internal service funds are used by the County to charge costs to other funds. The assets and liabilities are included in the governmental activities.	3,187
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.	(7,555,512)
<b>Net position of governmental activities</b>	<b>\$ 3,768,044</b>

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

**GATES COUNTY, NORTH CAROLINA**

**STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	General Fund	School Capital Outlay Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 7,073,067	\$ -	\$ -	\$ 7,073,067
Sales tax	1,956,027	-	-	1,956,027
Intergovernmental revenues	2,063,797	-	-	2,063,797
Charges for services	112,082	-	333,250	445,332
Investment earnings	8,857	-	1,332	10,189
License and permits	173,620	-	-	173,620
Miscellaneous	20,990	-	-	20,990
Total revenues	<u>11,408,440</u>	<u>-</u>	<u>334,582</u>	<u>11,743,022</u>
<b>Expenditures</b>				
Current:				
General government	1,669,240	-	-	1,669,240
Public safety	2,428,394	-	-	2,428,394
Human services	1,766,011	-	368,680	2,134,691
Education	2,714,000	511,243	-	3,225,243
Economic development	1,252,581	-	-	1,252,581
Culture and recreation	335,243	-	-	335,243
Capital outlay	214,034	-	172,267	386,301
Debt service:				
Principal retirements	544,870	-	-	544,870
Interest and fiscal charges	90,416	-	-	90,416
Total expenditures	<u>11,014,789</u>	<u>511,243</u>	<u>540,947</u>	<u>12,066,979</u>
Excess (deficiency) of revenues over expenditures	<u>393,651</u>	<u>(511,243)</u>	<u>(206,365)</u>	<u>(323,957)</u>
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	8,227	-	-	8,227
Transfers in	-	1,073,135	50,000	1,123,135
Transfers out	(2,350,615)	-	-	(2,350,615)
Total other financing sources (uses)	<u>(2,342,388)</u>	<u>1,073,135</u>	<u>50,000</u>	<u>(1,219,253)</u>
Net change in fund balances	(1,948,737)	561,892	(156,365)	(1,543,210)
<b>Fund balances, beginning of year, restated</b>	<u>4,515,304</u>	<u>271,553</u>	<u>223,202</u>	<u>5,010,059</u>
<b>Fund balances, end of year</b>	<u>\$ 2,566,567</u>	<u>\$ 833,445</u>	<u>\$ 66,837</u>	<u>\$ 3,466,849</u>

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

# GATES COUNTY, NORTH CAROLINA

## RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

---

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

Net change in fund balances - total governmental funds	\$	(1,543,210)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		1,042,735
The net effect of various miscellaneous transactions involving capital assets (i.e., sales) is to decrease net position.		(32,638)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		75,491
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, however, has any effect on net position. This amount is the repayment of installment notes payable.		544,870
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.		<u>(307,734)</u>
Change in net position - governmental activities	\$	<u><u>(220,486)</u></u>

**The accompanying notes are an integral part of these financial statements.**

**GATES COUNTY, NORTH CAROLINA**

**GENERAL FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET TO ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Property taxes	\$ 6,695,719	\$ 6,695,719	\$ 7,073,067	\$ 377,348
Sales tax	2,477,500	2,477,500	1,956,027	(521,473)
Intergovernmental revenue	2,046,215	2,389,972	2,063,797	(326,175)
Charges for services	343,161	342,161	112,082	(230,079)
Investment earnings	9,000	9,000	8,838	(162)
License and permits	168,940	168,940	169,268	328
Miscellaneous	2,194	2,199	20,990	18,791
Total revenues	<u>11,742,729</u>	<u>12,085,491</u>	<u>11,404,069</u>	<u>(681,422)</u>
<b>Expenditures</b>				
Current:				
General government	1,593,150	1,579,396	1,669,240	(89,844)
Public safety	2,232,700	2,994,352	2,424,394	569,958
Human services	2,082,684	2,095,042	1,766,011	329,031
Education	2,714,000	2,714,000	2,714,000	-
Economic development	997,350	1,063,049	952,581	110,468
Culture and recreation	335,243	335,243	335,243	-
Debt service:				
Principal retirements	541,738	541,738	544,870	(3,132)
Interest	93,549	93,549	90,416	3,133
Total expenditures	<u>10,590,414</u>	<u>11,416,369</u>	<u>10,496,755</u>	<u>919,614</u>
Excess (deficiency) of revenues over expenditures	1,152,315	669,122	907,314	238,192
<b>Other financing sources (uses):</b>				
Proceeds from sale of capital assets	10,188	10,188	8,227	(1,961)
Transfers out	(1,162,503)	(2,310,623)	(3,040,502)	(729,879)
Appropriated fund balance	-	859,849	-	(859,849)
Total other financing sources	<u>(1,152,315)</u>	<u>(1,440,586)</u>	<u>(3,032,275)</u>	<u>(1,591,689)</u>
Net change in fund balances	-	(771,464)	(2,124,961)	(1,353,497)
<b>Fund balances, beginning of year, restated</b>	<u>4,332,190</u>	<u>4,332,190</u>	<u>4,332,190</u>	<u>-</u>
<b>Fund balances, end of year</b>	<u>\$ 4,332,190</u>	<u>\$ 2,700,877</u>		<u>\$ (1,353,497)</u>
Reconciliation to the General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance:				
Revaluation Fund			201,205	
Transit Fund			48,201	
Register of Deeds Automation Fund			6,334	
Capital Improvement Projects Fund			103,598	
			<u>\$ 2,566,567</u>	

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

**GATES COUNTY, NORTH CAROLINA**

**STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2018**

ASSETS	Landfill Fund	Water Fund	Totals	Internal Service Fund
<b>CURRENT ASSETS</b>				
Cash and cash equivalents	\$ -	\$ 2,692,694	\$ 2,692,694	\$ 3,187
Accounts receivable, net of allowances	145,059	15,608	160,667	-
Due from other governments	-	4,228	4,228	-
Due from other funds	97,018	-	97,018	-
Inventory	-	30,935	30,935	-
Total current assets	<u>242,077</u>	<u>2,743,465</u>	<u>2,985,542</u>	<u>3,187</u>
<b>CAPITAL ASSETS</b>				
Nondepreciable	-	2,713,573	2,713,573	-
Depreciable, net of accumulated depreciation	2,237	3,828,998	3,831,235	-
Total noncurrent assets	<u>2,237</u>	<u>6,542,571</u>	<u>6,544,808</u>	<u>-</u>
Total assets	<u>244,314</u>	<u>9,286,036</u>	<u>9,530,350</u>	<u>3,187</u>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension related items	-	43,228	43,228	-
OPEB related items	-	3,889	3,889	-
Total deferred outflows of resources	<u>-</u>	<u>47,117</u>	<u>47,117</u>	<u>-</u>
<b>LIABILITIES</b>				
<b>CURRENT LIABILITIES</b>				
Accounts payable	97,017	6,471	103,488	-
Due to other funds	-	118,125	118,125	-
Payroll withholdings	-	35,356	35,356	-
Compensated absences payable	-	4,800	4,800	-
Total current liabilities	<u>97,017</u>	<u>164,752</u>	<u>261,769</u>	<u>-</u>
<b>NONCURRENT LIABILITIES</b>				
Compensated absences payable	-	19,753	19,753	-
Net pension liability	-	56,050	56,050	-
Total OPEB liability	-	222,332	222,332	-
Total noncurrent liabilities	<u>-</u>	<u>298,135</u>	<u>298,135</u>	<u>-</u>
Total liabilities	<u>97,017</u>	<u>462,887</u>	<u>559,904</u>	<u>-</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension related items	-	2,999	2,999	-
OPEB related items	-	23,307	23,307	-
Total deferred inflows of resources	<u>-</u>	<u>26,306</u>	<u>26,306</u>	<u>-</u>
<b>NET POSITION</b>				
Net investment in capital assets	2,237	6,542,571	6,544,808	-
Unrestricted	145,060	2,301,389	2,446,449	3,187
Total net position	<u>\$ 147,297</u>	<u>\$ 8,843,960</u>	<u>\$ 8,991,257</u>	<u>\$ 3,187</u>

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



**GATES COUNTY, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN NET POSITION**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2018**

	Landfill Fund	Water Fund	Totals	Internal Service Fund
<b>OPERATING REVENUES</b>				
Charges for services	\$ 689,696	\$ 1,271,583	\$ 1,961,279	\$ -
Other operating revenues	36,994	42,594	79,588	-
Total operating revenues	<u>726,690</u>	<u>1,314,177</u>	<u>2,040,867</u>	<u>-</u>
<b>OPERATING EXPENSES</b>				
Landfill operations	931,002	-	931,002	-
Water operations	-	629,013	629,013	-
Sewer Operations	-	22,345	22,345	-
Depreciation	560	201,697	202,257	-
Total operating expenses	<u>931,562</u>	<u>853,055</u>	<u>1,784,617</u>	<u>-</u>
Operating income (loss)	<u>(204,872)</u>	<u>461,122</u>	<u>256,250</u>	<u>-</u>
<b>NON-OPERATING REVENUES</b>				
Investment earnings	6	14,968	14,974	-
Gain on disposal of capital assets	-	7,344	7,344	-
Miscellaneous	35,339	-	35,339	-
Total non-operating revenue	<u>35,345</u>	<u>22,312</u>	<u>57,657</u>	<u>-</u>
Income (loss) before transfers	(169,527)	483,434	313,907	-
Transfers in	<u>264,360</u>	<u>963,120</u>	<u>1,227,480</u>	<u>-</u>
Change in net position	94,833	1,446,554	1,541,387	-
<b>Net position, beginning of year, restated</b>	<u>52,464</u>	<u>7,397,406</u>	<u>7,449,870</u>	<u>3,187</u>
<b>Net position, end of year</b>	<u>\$ 147,297</u>	<u>\$ 8,843,960</u>	<u>\$ 8,991,257</u>	<u>\$ 3,187</u>

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

**GATES COUNTY, NORTH CAROLINA**

**STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2018**

	Landfill Fund	Water Fund	Totals	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Receipts from customers and users	\$ 708,554	\$ 1,494,669	\$ 2,203,223	\$ -
Payments to suppliers	(913,520)	(212,378)	(1,125,898)	-
Payments to employees	-	(407,388)	(407,388)	-
Net cash provided by (used in) operating activities	(204,966)	874,903	669,937	-
<b>CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES</b>				
Transfers from other funds	167,342	963,120	1,130,462	-
Intergovernmental grants and contributions	37,618	-	37,618	-
Net cash provided by non-capital financing activities	204,960	963,120	1,168,080	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Purchases and acquisition of capital assets	-	(1,029,331)	(1,029,331)	-
Proceeds from sale of capital assets	-	8,649	8,649	-
Net cash provided by (used in) capital and related financing activities	-	(1,020,682)	(1,020,682)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest received	6	14,968	14,974	-
Net cash provided by investing activities	6	14,968	14,974	-
Net increase in cash and cash equivalents	-	832,309	832,309	-
Cash and cash equivalents, beginning of year	-	1,860,385	1,860,385	3,187
Cash and cash equivalents, end of year	\$ -	\$ 2,692,694	\$ 2,692,694	\$ 3,187
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN)</b>				
<b>OPERATING ACTIVITIES</b>				
Operating income (loss)	\$ (204,872)	\$ 461,122	\$ 256,250	\$ -
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:				
Depreciation expense	560	201,697	202,257	-
Change in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:				
(Increase) decrease in accounts receivable	(18,136)	175,068	156,932	-
Decrease in due from other governments	-	5,424	5,424	-
Decrease in inventory	-	4,815	4,815	-
Increase (decrease) in accounts payable	17,482	(1,722)	15,760	-
Increase in accrued payroll withholdings	-	19,834	19,834	-
Increase in due to other funds	-	118,125	118,125	-
Increase in compensated absences payable	-	4,233	4,233	-
Increase in pension related items	-	4,404	4,404	-
Decrease in total OPEB liability	-	(118,097)	(118,097)	-
Net cash provided by (used in) operating activities	\$ (204,966)	\$ 874,903	\$ 669,937	\$ -

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

**GATES COUNTY, NORTH CAROLINA**

**STATEMENT OF FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
JUNE 30, 2018**

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<b>ASSETS</b>	<b>Agency Funds</b>
Cash and cash equivalents	\$ 3,532
Total assets	<u>\$ 3,532</u>
<b>LIABILITIES</b>	
Accounts Payable	\$ 3,532
Total liabilities	<u>\$ 3,532</u>

**The accompanying notes are an integral part of these financial statements.**

# GATES COUNTY, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Gates County, North Carolina (the "County") have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The County's significant accounting policies are described below.

#### A. Reporting Entity

Gates County, North Carolina (the "County"), was founded in 1779 and is located in the northeastern portion of North Carolina. The County has a commissioner/manager form of government with a five-member elected Board of Commissioners comprising the governing body. The County provides the following services to its citizens: regional public health, public safety, regional mental health, social service programs, planning and zoning, cultural and recreational programs, and housing and community development service programs. In addition, inspections, environmental resources, land records, and vital statistics information are provided. Elementary and secondary education is provided by the State through locally elected educational boards with the assistance of the County.

As required by accounting principles generally accepted in the United States of America, the financial statements of the reporting entity include those of the County and its component unit. The component unit discussed below is included in the County's reporting entity because of the significance of their operational and financial relationship with the County. The discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government.

#### Discretely Presented Component Unit

The Gates County Alcoholic Beverage Control Board (the "ABC Board") operates retail liquor stores within the County and investigates violations of laws pertaining to retail liquor sales. The five members of the ABC Board's governing board are appointed by the County. The ABC Board is required by State statute to distribute surpluses to the General Fund of the County. Complete separate financial statements for the ABC Board may be obtained at its administrative office:

Gates County ABC Board  
PO Box 88  
Edenton, North Carolina 27932

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from the legally separate *component unit* for which the primary government is financially accountable. The statement of net position includes non-current assets and non-current liabilities. In addition, the government-wide statement of activities reflects depreciation expense on the County's capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to those who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the County considers most revenues to be available if they are collected within 90 days of the end of the current fiscal period, except for property taxes which use a 60 day period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to other long-term liabilities, such as compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, intergovernmental grants, and investment income associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the County.

In accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*, the corresponding assets (receivables) in non-exchange transactions are recognized in the period in which the underlying exchange occurs, when an enforceable legal claim has arisen, when all eligibility requirements have been met, or when resources are received, depending on the revenue source.

In accordance with GASB Statement No. 34, individual major funds are reported as separate columns in the fund financial statements.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The County reports the following major governmental funds:

The **General Fund** is the County's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The Property Revaluation Fund is a legally budgeted fund under North Carolina General Statutes, which for reporting purposes is presented in the General Fund.

The **School Capital Outlay** fund is used to account for the financial resources used the acquisition, renovation, and improvement of public school facilities.

The County reports the following major enterprise funds:

The **Landfill Fund** accounts for the revenues and expenses related to the provision of solid waste disposal and recycling activities for the citizens of Gates County. The County does not operate a landfill, but transfers solid waste to a regional landfill facility.

The **Water Fund** accounts for the revenues and expenses related to the provision of the water and sewer system within the County.

Additionally, the County reports the following fund types:

The **special revenue funds** are used to account for specific revenues, such as various grants and contributions, which are legally restricted or committed to expenditures for particular purposes.

The **capital projects funds** account for financial resources to be used for the acquisition and construction of major capital projects.

The **internal service fund** is used to account for goods and services provided by one department to other departments of the County. The County has one such fund, the Fleet Management Fund, which is currently inactive.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### C. Measurement Focus, Basis of Accounting and Financial Statement Presentation (Continued)

The **agency funds** are used to account for assets the County holds on behalf of others. The County maintains the following agency funds: Social Services Fund, which accounts for funds held by the County for subsistence needs of specific social service clients; Town of Gatesville Fund, which accounts for taxes collected on behalf of the Town of Gatesville; Drainage District III Fund, which accounts for fees collected on behalf of the third drainage district in the County; and the Emergency Medical Services Fund, which accounts for ambulance fees collected on behalf of the Rescue Squad.

In accounting and reporting for its proprietary operations, the government applies all GASB pronouncements. GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporated into the GASB's authoritative literature certain accounting and financial reporting guidance issued on or before November 30, 1989 which did not conflict with or contradict GASB pronouncements.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. However, any inter-fund services provided and used are not eliminated as this process would distort the direct costs and program revenues reported in the various functions.

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

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



## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### D. Budgets

Annual appropriated budgets are adopted for all funds. In accordance with State law, the budgets adopted for the enterprise funds are adopted on the modified accrual basis of accounting, and a reconciliation is provided along with the budget schedule to reconcile from the modified accrual basis to the accrual basis. The governmental funds' budgets are adopted on a basis other than accounting principles generally accepted in the United States of America. Budgets are adopted to show use of fund balance as other financing sources for both governmental and proprietary funds, as well as the proprietary funds are budgeted on the modified accrual basis of accounting. Annual operating budgets are adopted each fiscal year through passage of an annual budget ordinance and amended as required for the General fund, special revenue funds, and the enterprise funds. During the fiscal year ended June 30, 2018, the original budget was amended through supplemental appropriations. These changes are reflected in the budgetary comparison schedules.

All budget appropriations lapse at the end of each year.

#### E. Deposits and Investments

Cash includes amounts in demand deposits as well as short-term investments with a maturity date within three months of the date acquired by the County. The County pools cash resources of its various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balance in the pooled cash accounts is available to meet current operating requirements. Any deposit in excess of the federal depository insured amounts must be collateralized by an equivalent amount of State or U.S. obligations. For purposes of the statement of cash flows, all highly liquid investments with an original maturity of less than 90 days are considered to be cash equivalents.

State law [G.S. 159-30(c)] authorizes the County 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 securities of the NCCMT- Cash 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.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### E. Deposits and Investments (Continued)

General Statute 159-30.1 allows the County to establish an Other Postemployment Benefit (OPEB) Trust managed by the staff of the Department of the State Treasurer and operated in accordance with state laws and regulations. It is not registered with the SEC and G.S. 159-30(g) allows the County to make contributions to the Trust. The State Treasurer in his discretion may invest the proceeds in equities of certain publicly held companies and long or short term fixed income investments as detailed in G.S. 147-69.2(b)(1-6) and (8). Funds submitted are managed in three different sub-funds, the State Treasurer's Short Term Investment Fund (STIF) consisting of short to intermediate treasuries, agencies and corporate issues authorized by G.S. 147-69.1, the Bond Index Fund (BIF) consisting of high quality debt securities eligible under G.S. 147-69.2(b)(1)-(6), and BlackRock's MSCI ACWI EQ Index Non-Lendable Class B Fund authorized under G.S. 147-69.2(b)(8).

#### F. Restricted cash and cash equivalents

The County has restricted cash and cash equivalents related to the General – Tax Revaluation Fund and the General – Register of Deeds Automation Fund as their use is restricted per the North Carolina General Statute 153A-150.

#### G. Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the County levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2017.

#### H. Allowances

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

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

#### **I. Interfund Receivables and Payables**

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year as well as all other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government wide financial statements as “internal balances.”

Advances between funds, as reported in the fund financial statements, represent long-term borrowing arrangements with established repayment schedules and are offset by a fund balance account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

#### **J. Inventories**

All inventories are valued at average cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Inventories of the enterprise funds are recorded as expenses when consumed rather than when purchased.

#### **K. Prepaid Items**

Payments made to vendors for services that will benefit periods beyond June 30, 2018, are recorded as prepaid items in both government-wide and fund financial statements.

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## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### L. Capital Assets

Capital assets, which include property, plant, equipment, infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), and intangible assets are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the County as assets with an initial, individual cost of more than \$5,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at their estimated acquisition value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

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

Buildings	40 years
Furniture and equipment	5-10 years
Vehicles	5 years
Plant and distribution systems	40 years

#### M. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### M. Deferred Outflows/Inflows of Resources (Continued)

In addition to liabilities, the financial statements 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 future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The County has one item that qualifies for reporting in this category which occurs in the governmental activities. The County reports a deferred inflow of resources for the property taxes paid in advance of the period they were intended to finance. Additionally, the County reports one item which is reported as a deferred inflow of resources which arises only under a modified accrual basis of accounting. Accordingly, the item, unavailable revenue, is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from the accrual of ad valorem taxes and intergovernmental revenues which are earned by the County but are not considered available for the liquidation of current expenditures. Additionally, deferred inflows of resources are reported for outstanding lien receivables which are not collected within 90 days of the County's fiscal year-end.

The County also has deferred inflows and outflows related to the recording of changes in its net pension liability – LGERS, net pension liability – ROD, and total pension liability – LEOSA and its net OPEB liability. Certain changes in the net pension/OPEB liability are recognized as pension or OPEB expense over time instead of all being recognized in the year of occurrence. Experience gains or losses result from periodic studies by the County's actuary which adjust the net pension/OPEB liability for actual experience for certain trend information that was previously assumed, for example the assumed dates of retirement of plan members. These experience gains or losses are recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. Changes in actuarial assumptions which adjust the net pension/OPEB liability are also recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension expense over the expected remaining service lives of plan members. Changes in proportion and differences between employer contributions and proportionate share of contributions which adjust the net pension liability are also recorded as deferred outflows of resources or deferred inflows of resources and are amortized into pension or OPEB expense over the expected remaining service lives of plan members. The difference between projected investment return on pension investments and actual return on those investments is also deferred and amortized against pension expense over a five year period.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### **N. Compensated Absences**

Permanent employees of the County can earn vacation leave at the rate of up to 21 days per year, based on the number of years of service. At termination, employees are paid for any accumulated vacation leave as it is vested once earned. These amounts are paid from the same fund to which the employee's salary is charged. There is no limit on the accumulation of sick leave for the County. Sick leave does not vest with employees and therefore the County does not report a liability for unused sick leave.

#### **O. Long-Term Obligations**

In the government-wide financial statements and proprietary fund types 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 are accrued and amortized over the term of the bonds using the effective interest method. Bonds payable are reported net of the applicable discount or premium. Bond issuance costs are expensed in the year of issuance.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of the 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.

#### **P. Fund Equity**

Fund equity at the governmental fund financial reporting level is classified as "fund balance." Fund equity for all other reporting is classified as "net position."

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### P. Fund Equity (Continued)

**Fund Balance** – Generally, fund balance represents the difference between the assets and liabilities and deferred inflows of resources under the current financial resources management focus of accounting. In the fund financial statements, governmental funds report fund balance classifications that comprise a hierarchy based primarily on the extent to which the County is bound to honor constraints on the specific purpose for which amounts in those funds can be spent.

Fund balances are classified as follows:

*Nonspendable* – Fund balances are reported as nonspendable when amounts cannot be spent because they are either: (a) not in spendable form (i.e., items that are not expected to be converted to cash), or (b) legally or contractually required to be maintained intact.

*Restricted* – Fund balances are reported as restricted when there are limitations imposed on their use either through enabling legislation adopted by the County or through external restrictions imposed by creditors, grantors, laws or regulations of other governments. One component of the restricted fund balance of the General Fund relates to the Stabilization by State Statute (*G.S. 159-8(a)*) which requires total fund balance less the fund balance available for appropriation equals the total amount that must be restricted.

*Committed* – Fund balances are reported as committed when they can be used only for specific purposes pursuant to constraints imposed by the County's Board of Commissioners. Approval of a resolution after a formal vote of the County's Board is required to establish a commitment of fund balance. Similarly, the County's Board may only modify or rescind the commitment by formal vote and adoption of a subsequent resolution.

*Assigned* – Fund balances are reported as assigned when amounts are constrained by the County's intent to be used for specific purposes, but are neither restricted nor committed. The County's Board of Commissioners, through County Ordinance, has expressly delegated to the County Manager the authority to assign funds for particular purposes.

*Unassigned* – Fund balances are reported as unassigned as the residual amount when the balances do not meet any of the above criterion. The County reports positive unassigned fund balance only in the general fund.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

#### P. Fund Equity (Continued)

**Flow Assumptions** – When both restricted and unrestricted amounts of fund balance are available for use for expenditures incurred, it is the County’s policy to use restricted amounts first and then unrestricted amounts as they are needed. For unrestricted amounts of fund balance, it is the County’s policy to use fund balance in the following order: (1) Committed, (2) Assigned, and (3) Unassigned.

**Net Position** – Net position represents the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources, in reporting which utilizes the economic resources measurement focus. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used (i.e., the amount that the County has spent) for the acquisition, construction or improvement of those assets.

Net position is reported as restricted using the same definition as used for restricted fund balance as described in the section above. All other net position is reported as unrestricted. As with many counties in the State of North Carolina, the County’s deficit in unrestricted net position is due primarily to the portion of the County’s outstanding general obligation and installment debt totaling approximately \$1.7 million incurred for the Gates County Board of Education (the “school system”). Under North Carolina law, the County is responsible for providing school system capital funding and has done so using a mixture of County funds and general obligation debt. The deficit results because the debt is recorded on the County’s financial statements as the issuing government, while the related assets are owned, operated, and recorded in the school system’s financial statements.

The County applies restricted resources first when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

#### Q. Pensions

For purposes of measuring the net pension liability (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 the Register of Deeds’ Supplemental Pension Fund (RODSPF) and additions to/deductions from LGERS’ and RODSPF’s fiduciary net position have been determined on the same basis as they are reported by LGERS and RODSPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.



**NOTES TO FINANCIAL STATEMENTS**

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**R. Management Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred outflows of resources, deferred inflows of resources, and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS**

**A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position**

The governmental fund balance sheet includes a reconciliation between *fund balance – total governmental funds and net position – governmental activities* as reported in the government-wide statement of net position. One element of that reconciliation explains that “long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.” The details of this \$7,555,512 difference are as follows:

Installment notes	\$	(2,677,785)
Accrued interest payable		(33,081)
Total OPEB liability		(4,198,921)
OPEB related deferred outflows of resources		73,442
OPEB related deferred inflows of resources		(440,180)
Compensated absences (i.e., vacation)		(278,987)
		(7,555,512)
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	\$	(7,555,512)

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)**

**A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Position (Continued)**

Another element of that reconciliation explains that “the net pension liability (asset), total pension liability and related deferred inflows and outflows of resources related to the County’s defined benefit pension plans are not expected to be liquidated with expendable available financial resources and, therefore, are not reported in the funds.” The details of this \$320,359 difference are as follows:

Total pension liability - Law Enforcement Officers' Special Separation	
Allowance (LEOSSA) - pension plan	\$ (186,983)
Deferred outflows of resources - LEOSSA	29,532
Deferred inflows of resources - LEOSSA	(2,118)
Net pension liability - LGERS	(643,647)
Deferred outflows of resources - LGERS	496,404
Deferred inflows of resources - LGERS	(34,438)
Net pension asset - Register of Deeds Retirement Plan	14,865
Deferred outflows of resources - Register of Deeds	6,215
Deferred inflows of resources - Register of Deeds	<u>(189)</u>
Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net position - governmental activities</i>	<u>\$ (320,359)</u>

**B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities**

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net change in fund balances – total governmental funds* and *changes in net position of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The details of this \$1,042,735 difference are as follows:

Capital outlay	\$ 1,492,848
Depreciation expense	<u>(450,113)</u>
Net adjustment to increase <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position - governmental activities</i>	<u>\$ 1,042,735</u>

## NOTES TO FINANCIAL STATEMENTS

**NOTE 2. RECONCILIATION OF GOVERNMENT-WIDE FINANCIAL STATEMENTS AND FUND FINANCIAL STATEMENTS (CONTINUED)**

**B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities (Continued)**

Another element of the reconciliation states that “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.” The details of this \$307,734 difference are as follows:

Compensated absences (i.e., vacation)	\$	71,799
Change in accrued interest		7,359
Net pension liability and related deferred outflows and inflows - LGERS		(11,294)
Total pension liability and related deferred outflows and inflows - LEOSSA		269
Net pension asset and related deferred outflows and inflows- ROD		(2,512)
Total OPEB liability		<u>(373,355)</u>
Net adjustment to decrease <i>net change in fund balances - total governmental funds</i> to arrive at <i>change in net position - governmental activities</i>	\$	<u><u>(307,734)</u></u>

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 3. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

**Expenditures in Excess of Appropriations.** The budget is officially adopted by the governing body prior to the beginning of its fiscal year, or a resolution authorizing the continuation of necessary and essential expenditures to operate the County will be adopted. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the department level, within the fund. Transfers of appropriations within a department budget or within a non-departmental expenditure category require only the approval of the County Manager. Transfers of appropriations between departments of less than \$5,000, and which do not involve salary or benefit appropriations, can be moved with the approval of the County Manager. Other increases in appropriations in a departmental budget or in a non-departmental expenditure category, require approval of the governing body in the form of amendments to the budget resolution.

The following is a list of the funds and departments which reported expenditures in excess of approved budgets:

General Fund:		
General government - Building and grounds	\$	230,128
Public safety - Medical examiner		4,100
Human services		
Health		427
Special appropriations		507
School Capital Outlay Fund:		
Education		511,243

The over expended departments were funded through greater than anticipated revenues and other savings noted in other departments within the funds.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 4. DEPOSITS AND INVESTMENTS

Total deposits as of June 30, 2018 are summarized as follows:

Statement of Net Position:

Cash and cash equivalents	\$ 5,395,673
Restricted cash and cash equivalents	171,015
Fiduciary - agency funds	3,532
	<u>\$ 5,570,220</u>
Cash deposited with financial institutions	\$ 5,515,647
Cash deposited with NCCMT	54,573
	<u>\$ 5,570,220</u>

**Credit risk.** State statutes and the County's policies authorize the County to invest in obligations of the State of North Carolina or other states; obligations issued by the U.S. government; obligations fully insured or guaranteed by the U.S. government or by a government agency of the United States; obligations of any corporation of the U.S. government; prime bankers' acceptances; the North Carolina Capital Management Trust (NCCMT); and obligations of other political subdivisions of the state of North Carolina. The County does not have a credit rating policy which provides restrictions or limitations on credit ratings for the County's investments.

As of June 30, 2018, the County had \$54,573 invested in the NCCMT's cash portfolio which carried a credit rating of AAAM by Standard and Poor's. The NCCMT's cash portfolio is valued using amortized costs. The County has no policy regarding credit risk.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 4. DEPOSITS AND INVESTMENTS (CONTINUED)

**Fair Value Measurement.** The County categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs.

**Interest Rate Risk:** The County does not have a formal investment interest rate policy that manages its exposure to fair value losses arising from increasing interest rates. The County's investments with the NCCMT reported a weighted-average duration of 0.09 years at June 30, 2018.

**Custodial credit risk – deposits:** Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. State statutes (G.S. 159-31) require all deposits and investments (other than federal or state government instruments) to be collateralized by depository insurance, obligations of the U.S. government, or bonds of public authorities, counties, or municipalities. As of June 30, 2018, the County's deposits are insured or collateralized as required by GASB and state statutes.

### NOTE 5. RECEIVABLES

Receivables at June 30, 2018, for the County's individual major funds and aggregate nonmajor funds, including any applicable allowances for uncollectible accounts are as follows:

	<u>General</u>	<u>School Capital Outlay</u>	<u>Landfill</u>	<u>Water</u>	<u>Other Governmental</u>
Receivables:					
Taxes	\$ 568,356	\$ -	\$ -	\$ -	\$ -
Accounts	38,817	862,455	345,405	74,951	7,577
Due from other governments	954,836	823	-	4,228	6,807
Less allowance for uncollectible	<u>(233,531)</u>	<u>-</u>	<u>(200,346)</u>	<u>(59,343)</u>	<u>-</u>
Net total receivables	<u>\$ 1,328,478</u>	<u>\$ 863,278</u>	<u>\$ 145,059</u>	<u>\$ 19,836</u>	<u>\$ 14,384</u>

## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. CAPITAL ASSETS

Capital asset activity for the County for the year ended June 30, 2018 is as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental Activities:</b>				
Nondepreciable capital assets:				
Land and easements	\$ 1,138,007	\$ -	\$ -	\$ 1,138,007
Construction in progress	469,162	919,109	(32,638)	1,355,633
Total	<u>1,607,169</u>	<u>919,109</u>	<u>(32,638)</u>	<u>2,493,640</u>
Capital assets, being depreciated:				
Buildings	5,795,252	-	-	5,795,252
Other improvements	756,778	97,392	-	854,170
Equipment	1,419,380	280,247	(93,416)	1,606,211
Vehicles	1,369,743	196,100	-	1,565,843
Total being depreciated	<u>9,341,153</u>	<u>573,739</u>	<u>(93,416)</u>	<u>9,821,476</u>
Less accumulated depreciation for:				
Buildings	(2,182,655)	(129,297)	-	(2,311,952)
Other improvements	(204,666)	(46,165)	-	(250,831)
Equipment	(811,984)	(160,549)	93,416	(879,117)
Vehicles	(944,960)	(114,102)	-	(1,059,062)
Total	<u>(4,144,265)</u>	<u>(450,113)</u>	<u>93,416</u>	<u>(4,500,962)</u>
Total capital assets, being depreciated, net	<u>5,196,888</u>	<u>123,626</u>	<u>-</u>	<u>5,320,514</u>
Governmental activities capital assets, net	<u>\$ 6,804,057</u>	<u>\$ 1,042,735</u>	<u>\$ (32,638)</u>	<u>\$ 7,814,154</u>

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6. CAPITAL ASSETS (CONTINUED)**

	<b>Beginning Balance</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>
<b>Landfill Fund:</b>				
Capital assets, being depreciated:				
Plant and distribution system	\$ 5,595	\$ -	\$ -	\$ 5,595
Total	5,595	-	-	5,595
Less accumulated depreciation for:				
Plant and distribution system	(2,798)	(560)	-	(3,358)
Total	(2,798)	(560)	-	(3,358)
Solid Waste Landfill capital assets, net	\$ 2,797	\$ (560)	\$ -	\$ 2,237
<b>Water Fund:</b>				
Nondepreciable capital assets:				
Land	\$ 432,336	\$ -	\$ -	\$ 432,336
Construction in progress	1,436,188	845,049	-	2,281,237
Total	1,868,524	845,049	-	2,713,573
Capital assets, being depreciated:				
Plant and distribution system	9,283,592	184,282	-	9,467,874
Furniture and equipment	437,041	-	-	437,041
Vehicles	250,871	-	(13,651)	237,220
Total depreciable assets	9,971,504	184,282	(13,651)	10,142,135
Less accumulated depreciation for:				
Plant and distribution system	(5,481,123)	(185,371)	-	(5,666,494)
Furniture and equipment	(434,579)	(2,462)	-	(437,041)
Vehicles	(208,084)	(13,864)	12,346	(209,602)
Total accumulated depreciation	(6,123,786)	(201,697)	12,346	(6,313,137)
Total capital assets being depreciated, net	3,847,718	(17,415)	(1,305)	3,828,998
Water Fund capital assets, net	\$ 5,716,242	\$ 827,634	\$ (1,305)	\$ 6,542,571



## NOTES TO FINANCIAL STATEMENTS

### NOTE 6. CAPITAL ASSETS (CONTINUED)

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

Governmental activities:			
General government	\$	78,021	
Public safety		111,659	
Human services		91,024	
Economic development		138,733	
Culture and recreation		30,676	
Total depreciation expense - governmental activities	\$	<u>450,113</u>	
Business-type activities			
Landfill Fund	\$	560	
Water Fund		201,697	
Total depreciation expense - business-type activities	\$	<u>202,257</u>	

### NOTE 7. LONG-TERM DEBT

Long-term liability activity for the year ended June 30, 2018 is as follows:

	<u>Restated Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<b>Governmental activities:</b>					
Installment notes payable	\$ 3,222,655	\$ -	\$ (544,870)	\$ 2,677,785	\$ 548,093
Net pension liability - LGERS	918,942	264,188	(539,483)	643,647	-
Total pension liability - LEOSSA	167,183	39,670	(19,870)	186,983	-
Compensated absences	350,786	29,723	(101,522)	278,987	85,000
Total OPEB liability	<u>4,268,113</u>	<u>375,542</u>	<u>(444,734)</u>	<u>4,198,921</u>	<u>-</u>
Governmental activity					
Long-term liabilities	<u>\$ 8,927,679</u>	<u>\$ 709,123</u>	<u>\$ (1,650,479)</u>	<u>\$ 7,986,323</u>	<u>\$ 633,093</u>
<b>Business-type activities:</b>					
Net pension liability - LGERS	\$ 61,577	\$ 41,385	\$ (46,912)	\$ 56,050	\$ -
Compensated absences	20,320	8,149	(3,916)	24,553	4,800
Total OPEB liability	<u>366,354</u>	<u>19,765</u>	<u>(163,787)</u>	<u>222,332</u>	<u>-</u>
Business-type activity					
Long-term liabilities	<u>\$ 448,251</u>	<u>\$ 69,299</u>	<u>\$ (214,615)</u>	<u>\$ 302,935</u>	<u>\$ 4,800</u>

For governmental funds, compensated absences are liquidated by the General Fund. The net pension liability – LGERS, total pension liability - LEOSSA, and net OPEB liability, are liquidated primarily by the General Fund. Beginning balances of the Total OPEB liability were restated for the implementation of GASB Statement No. 75; for further information see notes 10 and 14.

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 7. LONG-TERM DEBT (CONTINUED)**

**Installment Notes Payable**

Installment notes serviced by the County governmental funds are as follows:

	<b>Balance as of June 30, 2018</b>
<b>Governmental activities:</b>	
\$4,460,000 note payable due in semi-annual installments of \$216,667 plus interest of 2.91%. The note was issued for the expansion of public school facilities. The payments are due September 21 and March 21, with an original maturity of March 21, 2022.	\$ 1,733,334
\$1,790,409 note payable due in annual installments of \$142,054, plus interest of 2.89%. The note was issued for the construction of the Social Services building. The payments are due on September 22, with the original maturity of September 22, 2025.	944,451
Total outstanding notes payable	\$ 2,677,785

The debt service to maturity on the installment notes payable is as follows:

	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
Year Ending June 30,			
2019	\$ 548,093	\$ 74,582	\$ 622,675
2020	551,410	58,656	610,066
2021	554,822	42,633	597,455
2022	558,333	26,512	584,845
2023	128,612	13,442	142,054
2024-2026	336,515	17,592	354,107
Total	\$ 2,677,785	\$ 233,417	\$ 2,911,202

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8. INTERFUND BALANCES AND TRANSFERS**

The composition of interfund balances as of June 30, 2018 is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Nonmajor governmental funds	\$ 57,422
General Fund	Water Fund	118,125
General Fund	School Capital Outlay Fund	29,833
		<u>\$ 205,380</u>
Nonmajor governmental funds	General Fund	<u>\$ 60,428</u>
School Capital Outlay Fund	General Fund	<u>\$ 862,455</u>
Landfill Fund	General Fund	<u>\$ 97,018</u>

The outstanding balances between funds result mainly from the time lag between the dates that transactions are recorded in the accounting system and when payments between funds are made.

Interfund transfers:

<u>Transfer in</u>	<u>Transfer out</u>	<u>Amount</u>
Nonmajor governmental funds	General Fund	<u>\$ 50,000</u>
School Capital Outlay Fund	General Fund	<u>\$ 1,073,135</u>
Water Fund	General Fund	<u>\$ 963,120</u>
Landfill Fund	General Fund	<u>\$ 264,360</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9. PENSION PLANS

Gates County participates in three defined benefit pension plans: the Local Governmental Employees' Retirement System (LGERS), Law Enforcement Officers Special Separation Allowance, and the Registers of Deeds' Supplemental Pension Fund (RODSPF). Only the LGERS and RODSPF are funded with qualifying trusts and accounted for by the County under GASB Statement No. 68. The LEOSSA is reported in accordance with GASB Statement No. 73. The net pension liability (asset), total pension liability, and related deferred outflows of resources and deferred inflows of resources for the LGERS, LEOSSA, and RODSPF are summarized as follows:

	LGERS	LEOSSA	RODSPF	Total
Net pension asset	\$ -	\$ -	\$ 14,865	\$ 14,865
Net pension liability	699,697	-	-	699,697
Total pension liability	-	186,983	-	186,983
Deferred outflows of resources related to pensions	539,632	29,532	6,215	575,379
Deferred inflows of resources related to pensions	37,437	2,118	189	39,744
Pension expense	237,284	19,601	3,269	260,154

#### A. Local Governmental Employees' Retirement System

**Plan Description.** Gates County 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).

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS (CONTINUED)

#### A. Local Governmental Employees' Retirement System (Continued)

**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 postretirement 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. The Gates County employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Gates County'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 Gates County were \$221,586 for the year ended June 30, 2018.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9. PENSION PLANS (CONTINUED)

#### A. Local Governmental Employees' Retirement System (Continued)

*Refunds of Contributions* – County 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 County reported a liability of \$699,697 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 County's proportion of the net pension liability was based on a projection of the County'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 County's proportion was 0.04580%, which was a decrease of 0.00040% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the County recognized pension expense of \$237,284. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 40,309	\$ 19,806
Net difference between projected and actual earnings on pension plan investments	169,888	-
Changes in proportion and differences between County contributions and proportionate share of contributions	7,923	17,631
Changes in plan assumptions	99,926	-
County contributions subsequent to the measurement date	221,586	-
Total	\$ 539,632	\$ 37,437

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9. PENSION PLANS (CONTINUED)

#### A. Local Governmental Employees' Retirement System (Continued)

County contributions made subsequent to the measurement date of \$221,586 are reported as deferred outflows of resources and will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30:	
2019	\$ 37,759
2020	199,917
2021	97,434
2022	(54,501)
Total	<u>\$ 280,609</u>

**Actuarial Assumptions.** The total pension liability as of June 30, 2017 was determined by the December 31, 2016 actuarial valuation using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 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.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 9. PENSION PLANS (CONTINUED)

#### A. Local Governmental Employees' Retirement System (Continued)

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:

<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	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 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%. This represents a reduction from the discount rate used in the prior year rate of 7.25%. 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.



**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9. PENSION PLANS (CONTINUED)**

**A. Local Governmental Employees' Retirement System (Continued)**

**Sensitivity of the County's proportionate share of the net pension liability to changes in the discount rate.**

The following presents the County's proportionate share of the net pension liability calculated using the discount rate of 7.20 percent, as well as what the County'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:

	<b>1% Decrease (6.20%)</b>	<b>Discount Rate (7.20%)</b>	<b>1% Increase (8.20%)</b>
County's proportionate share of the net pension liability (asset)	\$ 2,100,507	\$ 699,697	\$ (469,537)

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

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

**Plan Description.** Gates County administers a public employee retirement system (the "Separation Allowance"), a single employer defined benefit pension plan that provides retirement benefits to the County's qualified sworn law enforcement officers. The Separation Allowance is administered by the State of North Carolina. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. A separate report is not issued for the Plan.

All full time law enforcement officers of the County are covered by the Separation Allowance. At December 31, 2016, the date of the most recent actuarial valuation the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Active plan members	13
Total	14

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS (CONTINUED)

#### B. Law Enforcement Officers Special Separation Allowance (Continued)

**Basis of Accounting.** The County has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. The Separation Allowance has no assets accumulated in a trust that meets the criteria, which are outlined in GASB Statement 73 paragraph 4.

**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	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

The discount rate used to measure the total pension liability is the Standard & Poor's 20-year Municipal Bond High Grade Rate Index. Since the prior measurement date, the discount rate has changed from 3.86% to 3.16% due to a change in the Municipal Bond Rate.

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.

**Contributions.** The County 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 County's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The County paid \$103,077 as benefits came due for the reporting period.

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9. PENSION PLANS (CONTINUED)**

**B. Law Enforcement Officers Special Separation Allowance (Continued)**

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

At June 30, 2018, the County reported a total pension liability of \$186,983. 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 County recognized pension expense of \$19,601. At June 30, 2018 the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Change in assumptions	\$ 7,696	\$ 2,118
Difference between expected and actual experience	11,901	-
County benefit payments made subsequent to the measurement date.	9,935	-
Total	\$ 29,532	\$ 2,118

An amount of \$9,935, reported as deferred outflows of resources related to pensions, resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized as reductions of pension expense as follows:

<b>Year ending June 30</b>		
2019	\$	3,471
2020		3,471
2021		3,471
2022		3,471
2023		3,595
Thereafter		-
Total	\$	17,479

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9. PENSION PLANS (CONTINUED)**

**B. Law Enforcement Officers Special Separation Allowance (Continued)**

**Changes in the Total Pension Liability.** The changes in the total pension liability of the County for the fiscal year ended June 30, 2018 were as follows:

	<b>Total Pension Liability</b>	
Balance at June 30, 2017	\$	167,183
Service cost		10,060
Interest		6,070
Difference between expected and actual differences		14,296
Assumption changes		9,244
Contributions		(19,870)
Balance at June 30, 2018	\$	186,983

The required schedule of changes in the County’s total pension liability and related ratios immediately following the notes to the financial statements presents multiyear trend information.

**Sensitivity of the County’s total pension liability to changes in the discount rate.** The following presents the County’s total pension liability calculated using the discount rate of 3.16 percent, as well as what the County’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	\$ 198,689	\$ 186,983	\$ 176,322

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS (CONTINUED)

#### C. Register of Deeds' Supplemental Pension Fund

**Plan Description.** The County also contributes to the Registers of Deeds' Supplemental Pension Fund (RODSPF), a noncontributory cost-sharing multiple-employer, defined benefit plan administered by the North Carolina Department of State Treasurer. RODSPF provides supplemental pension benefits to any eligible county register of deeds who is retired under the Local Government Employees' Retirement System (LGERS) or an equivalent locally sponsored plan. Article 3 of G.S. Chapter 161 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 Registers of Deeds' Supplemental Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Registers of Deeds' Supplemental Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](http://www.osc.nc.gov).

**Benefits Provided.** An individual's benefits for the year are calculated as a share of accumulated contributions available for benefits for that year, subject to certain statutory limits. An individual's eligibility is based on at least 10 years of service as a register of deeds with the individual's share increasing with years of service. Because of the statutory limits noted above, not all contributions available for benefits are distributed.

**Contributions.** Benefits and administrative expenses are funded by investment income and 1.5% of the receipts collected by each County Commission under Article 1 of Chapter 161 of the North Carolina General Statutes. The statutory contribution currently has no relationship to the actuary's required contribution. The actuarially determined contribution this year and for the foreseeable future is zero. Registers of Deeds do not contribute. Contribution provisions are established by General Statute 161-50 and may be amended only by the North Carolina General Assembly. Contributions to the pension plan from the County were \$757 for the year ended June 30, 2018.

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9. PENSION PLANS (CONTINUED)**

**C. Register of Deeds' Supplemental Pension Fund (Continued)**

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

At June 30, 2018, the County reported an asset of \$14,865 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2017. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2017 utilizing update procedures incorporating the actuarial assumptions. The County's proportion of the net pension asset was based on the County's share of contributions to the pension plan, relative to contributions to the pension plan of all participating RODSPF employers. At June 30, 2017, the County's proportion was 0.08709%, which was a decrease of 0.00864% from its proportion measured as of June 30, 2016

For the year ended June 30, 2018, the County recognized pension expense of \$3,269. At June 30, 2017, the County reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 255	\$ 48
Net difference between projected and actual earnings on pension plan investments	1,264	-
Changes in proportion and differences between County contributions and proportionate share of contributions	1,431	141
Changes in assumptions	2,508	-
County contributions subsequent to the measurement date	757	-
Total	\$ 6,215	\$ 189

County contributions made subsequent to the measurement date of \$757 are reported as deferred outflows of resources and will be recognized as a reduction of the net pension liability (asset) in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30:</b>		
2019	\$	2,954
2020		1,848
2021		145
2022		322
Total	\$	5,269

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS (CONTINUED)

#### C. Register of Deeds' Supplemental Pension Fund (Continued)

**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 7.75 percent, including inflation and productivity factor
Investment rate of return	3.75 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, 2015 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. 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 adopted asset allocation policy for the RODSPF is 100% in the fixed income asset class. The best estimate of arithmetic real rate of return for the fixed income asset class as of June 30, 2017 is 3.75%, including inflation.

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 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.

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 9. PENSION PLANS (CONTINUED)**

**C. Register of Deeds’ Supplemental Pension Fund (Continued)**

**Discount rate.** The discount rate used to measure the total pension liability was 3.75%. The projection of cash flows used to determine the discount rate assumed that contributions from employers will be made at statutorily required rates. 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 County’s proportionate share of the net pension asset to changes in the discount rate.** The following presents the County’s proportionate share of the net pension asset calculated using the discount rate of 3.75 percent, as well as what the County’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 (2.75 percent) or one percentage point higher (4.75 percent) than the current rate:

	<b>1% Decrease (2.75%)</b>	<b>Discount Rate (3.75%)</b>	<b>1% Increase (4.75%)</b>
County's proportionate share of the net pension liability (asset)	\$ (11,684)	\$ (14,865)	\$ (17,541)

**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.

**D. Supplemental Retirement Income Plan for Law Enforcement Officers**

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



## NOTES TO FINANCIAL STATEMENTS

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### NOTE 9. PENSION PLANS (CONTINUED)

#### D. Supplemental Retirement Income Plan for Law Enforcement Officers (Continued)

**Funding Policy.** Article 12E of G.S. Chapter 143 requires the County to contribute, each month, an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Additionally, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2018 were \$38,773 which consisted of \$23,545 from the County and \$15,228 from the law enforcement officers.

#### E. Supplemental Retirement Income Plan for General Government Employees

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

**Funding Policy.** Article 12E of G.S. Chapter 143 requires the County 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 \$27,849, which consisted of \$21,205 from the County and \$6,644 from the law enforcement officers. The County does not contribute to the plan for other employees.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 10. OTHER POSTEMPLOYMENT BENEFITS

**Plan Administration and Benefits.** The County, as authorized by the County Commission, administers a single-employer defined benefit Postemployment Healthcare Benefits Plan (the “PHCB Plan”). The PHCB Plan is administered by the County management, under the direction of the County’s Board of Commissioners. The County will provide, at its expense, medical insurance for all full time employees who retire with unreduced benefits from the North Carolina Local Governmental Employees’ Retirement System (NCLGERS). Employees who are retiring with at least 20 years of Gates County service may continue to participate in the County’s health insurance plan by paying the full premium amount of the dependent coverage until the employee or dependent reach 65, whichever occurs first. Coverage will cease when the retiree is eligible for Medicare.

The County’s Board of Commissioners established and may amend the benefit provisions. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75 and a separate report was not issued for the PHCB Plan.

**Plan Membership.** Membership of the PHCB Plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

Active participants	86
Retirees and beneficiaries currently receiving benefits	<u>12</u>
Total	<u><u>98</u></u>

**Contributions.** The Board of Commissioners has elected to fund the PHCB plan on a “pay as you go” basis. Plan members, once retired, contribute to the plan based on number of years of creditable service. Per a County resolution, the County is required to contribute the current year benefit costs of the Plan which are not paid by the retiree. For the year ended June 30, 2018, the County contributed \$64,951 for the pay as you go benefits for the PHCB Plan.

#### **Total OPEB Liability of the County**

Effective July 1, 2017, the County implemented the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which significantly changed the County’s accounting for OPEB amounts. The information disclosed below is presented in accordance with this new standard.

The County’s total OPEB liability was measured as of June 30, 2017, as determined by an actuarial valuation as of June 30, 2017.

## NOTES TO FINANCIAL STATEMENTS

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### NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)

Actuarial assumptions. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Discount Rate:	3.56%
Healthcare Cost Trend Rate:	7.50% - 5.00%, Ultimate Trend in 2023 (Pre-Medicare) 5.50% - 5.00%, Ultimate Trend in 2020 (Medicare)
Inflation Rate:	2.50%
Salary increase:	3.50% to 7.35% (LEO) or 7.75% (other), including inflation
Participation rate:	20% to 100%, depending on length of service

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

The actuarial assumptions used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period 2010-2014.

**Discount rate.** The discount rate used to measure the total OPEB liability was 3.56%. The rate was increased from the discount rate of 3.01% which was used for the prior measurement period. This rate was determined using an index rate of 20-year, tax-exempt general obligation municipal bonds with an average rating of AA or higher – which was 3.56% as determined by the Bond Buyer 20-Bond GO Index Rate as of June 30, 2018.

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**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

**Changes in the Total OPEB Liability of the County.** The changes in the components of the total OPEB liability of the County for the year ended June 30, 2018, were as follows:

	<b>Total OPEB Liability</b>
<b>Balances at 6/30/17</b>	\$ 4,634,467
<b>Changes for the year:</b>	
Service cost	242,984
Interest	138,268
Differences between expected and actual experience	14,055
Assumption Changes	(526,205)
Benefit payments	(82,316)
<b>Net changes</b>	<b>(213,214)</b>
<b>Balances at 6/30/18</b>	<b>\$ 4,421,253</b>

The required schedule of changes in the County's total OPEB liability and related ratios immediately following the notes to the financial statements presents multiyear trend information about the total OPEB liability.

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

	1% Decrease (2.56%)	Discount Rate (3.56%)	1% Increase (4.56%)
Total OPEB liability	\$ 5,442,494	\$ 4,421,253	\$ 3,644,254

**Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates.** The following presents the total OPEB liability of the County, as well as what the County's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.5% decreasing to 4.0%) or 1-percentage-point higher (8.5% decreasing to 6.0%) than the current healthcare cost trend rates:

	1% Decrease (6.5% to 4.0%)	Current (7.5% to 5.0%)	1% increase (8.5% to 6.0%)
Total OPEB liability	\$ 3,577,592	\$ 4,421,253	\$ 5,557,959

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 10. OTHER POSTEMPLOYMENT BENEFITS (CONTINUED)**

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revisions as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect as of June 30, 2018 and the current sharing pattern of costs between employer and inactive employees.

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

For the year ended June 30, 2018, the County recognized OPEB expense of \$320,209. At June 30, 2018, the County reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 12,380	\$ -
Changes in assumptions	-	463,487
Benefits paid subsequent to measurement period	64,951	
Total	\$ 77,331	\$ 463,487

Benefits paid by the County subsequent to the measurement date of \$64,951 are reported as deferred outflows of resources and will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

<b>Year ending June 30:</b>	
2018	\$ (61,043)
2019	(61,043)
2020	(61,043)
2021	(61,043)
2022	(61,043)
Thereafter	(145,892)
Total	\$ (451,107)

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 11. RISK MANAGEMENT**

The County is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; error and omissions; injuries to employees; and natural disasters. The County participates in two self-funded risk-financing pools administered by the North Carolina Association of County Commissioners. Through these pools, the County obtains property coverage equal to replacement cost values of owned property subject to a limit of \$18,827,100 for any one occurrence, general, auto, professional, employment practices liability coverage of \$2 million per occurrence, cyber liability coverage of \$1 million per occurrence, auto physical damage coverage for owned autos at actual cash value, crime coverage of \$250,000 per occurrence, workers' compensation coverage up to the statutory limits. The pools are audited annually by certified public accountants, and the audited financial statements are available to the County upon request. Both of the pools are reinsured through a multi-state public entity captive for single occurrence losses in excess of \$500,000 up to a \$2 million limit for liability coverage, and \$1,750,000 of each loss in excess of \$250,000 per occurrence for property, and auto physical damage. For workers compensation there is a per occurrence retention of \$750,000.

The County carries flood insurance through the National Flood Insurance Plan (NFIP). Because the County is in an area of the State that has been mapped and designated as an "A" area (an area close to a river, lake, or stream) by the Federal Emergency Management Agency, the County is eligible to purchase coverage of \$25,000 per structure for each occurrence through the NFIP.

In accordance with G.S. 159-29, County employees that have access to \$100 or more at any given time of the County's funds are performance bonded through a commercial surety bond. The Director of Finance and the tax collector are individually bonded for \$50,000 and \$200,000, respectively. The remaining employees that have access to funds are bonded under a blanket bond for \$250,000.

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

## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 11. RISK MANAGEMENT (CONTINUED)**

#### **Litigation:**

The County is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of management and legal counsel, the resolution of these matters will not have a material adverse effect on the financial condition of the County.

#### **Grant Contingencies:**

The County has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to the disallowance of certain expenditures previously reimbursed by those agencies. Based upon prior experience, management of the County believes such disallowances, if any, will not be significant.

#### **Construction Commitments:**

The County has several active construction projects as of June 30, 2018 with contractual commitments on the uncompleted contract of approximately \$1,487,756.

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## NOTES TO FINANCIAL STATEMENTS

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### NOTE 12. JOINT VENTURES

The County participates in a joint venture to operate Perquimans-Chowan-Gates Regional Landfill (Landfill) with two other counties. Each participating government appoints their County manager and one Commissioner to the nine-member Board of the landfill. Although the Landfill is no longer accepting solid waste, the site will continue to be used as a waste transfer station. None of the participating governments have any equity interest in the Perquimans-Chowan-Gates Regional Landfill, so none was reflected in the County's financial statements at June 30, 2018. Gates County will continue to pay 25% of the site's operating costs and 33% of any capital outlay and administration cost. In accordance with the intergovernmental agreement between the participating governments, the County paid \$873,653 for operating costs.

The County participates in the Albemarle Regional Solid Waste Management Authority (ARSWMA). The County participates with eight other counties to operate the Albemarle Solid Waste Authority. Each participating government appoints two members to a fourteen-member board. The County has an ongoing financial responsibility for the joint venture because the Albemarle Regional Solid Waste Management Authority's existence depends on the participating governments continued funding. None of the participating governments have any equity interest in the Albemarle Regional Solid Waste Management Authority, so none was reflected in the County's financial statements at June 30, 2018. Complete financial statements for the Albemarle Regional Solid Waste Management Authority can be obtained from the Albemarle Regional Solid Waste Management Authority at Post Office Box 189, Elizabeth City, NC 27909.

Federal and State laws and regulations require the County to place a final cover on its landfills when it stops accepting waste and to perform certain maintenance and monitoring functions at the site for 30 years after closure. The ARSWMA is under contract with a private contractor to maintain the landfill to meet environmental regulations. The private contractor has established a reserve fund to provide for closure and post-closure costs. The County believes this reserve to be adequate at this time.

The County participates with four other counties to operate the Albemarle Regional Library, which serves a four-County District. Gates County appoints three members to the ten-member district Library board. The County has an ongoing financial responsibility for the joint venture because the Library's existence depends on the participating governments continued funding. None of the participating governments have any equity interest in the Library, so none was reflected in the County's financial statements at June 30, 2018. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$96,743 to the Library to supplement its activities. Complete financial statements for the Library can be obtained from the Library's office on Tryon Street, Winton, NC 27986.



## NOTES TO FINANCIAL STATEMENTS

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### **NOTE 12. JOINT VENTURES (CONTINUED)**

The County participates in a joint venture with seven other counties to operate Albemarle Regional Health Services. The area Board of Commissioners appoints the fifteen member governing board based. The County has an ongoing financial responsibility for Albemarle Regional Health Services because the County is required by Statute to provide public health services either directly or jointly with other counties. Also, Albemarle Regional Health Services existence depends on the participating governments continued funding. None of the participating governments have any equity interest in the Albemarle Regional Health Services, so none was reflected in the County's financial statements at June 30, 2018. In accordance with the intergovernmental agreement between the participating governments, the County appropriated \$113,500 to Albemarle Regional Health Services to supplement its activities. Complete financial statements for Albemarle Regional Health Services can be obtained from the Regional offices at P.O. Box 189, Elizabeth City, NC 27909.

### **NOTE 13. JOINTLY GOVERNED ORGANIZATIONS**

The County, in conjunction with nine other counties and 16 other municipalities, established the Albemarle Commission. The participating governments established the Commission to coordinate various funding received from Federal and State agencies. Each participating government appoints one member to the Commission's board. The County paid membership fees of \$10,168 to the Commission during the fiscal year ended June 30, 2018. Complete financial statements for the Albemarle Commission can be obtained from the Albemarle Commission at Post Office Box 646, Hertford, NC 27944.

The County, in conjunction with other counties, participates in Trillium Health Resources, a local management entity for mental healthcare services. These entities provide mental health services to the residents of the participating counties through satellite offices. The County contributed \$30,427 to this organization during the fiscal year ended June 30, 2018.

## NOTES TO FINANCIAL STATEMENTS

### NOTE 14. RESTATEMENTS

The County has determined restatements to beginning net position of governmental activities and the fund balance of the General Fund were required (1) for the implementation of GASB Statement No. 75, which requires retroactive reporting of opening balances, (2) to write-off interfund loans which are not deemed to have been collectible as of June 30, 2017, (3) to accrue wages and benefits which were incurred as of June 30, 2017 but were not accrued in prior years, and (4) to accrue payroll benefits associated with the accrued vacation as of June 30, 2017. The effect of the restatement resulted in a change to beginning net position of the governmental activities and beginning fund balance of the General Fund, are as follows:

	<b>Governmental Activities</b>
Net Position, governmental activities, as previously reported	\$ 6,281,130
Restatement for implementation of GASB Statement No. 75:	
Total OPEB liability as of June 30, 2017	(4,268,113)
Deferred outflows of resources - contributions	75,809
Removal of prior Net OPEB obligation reported June 30, 2017 - Governmental activities	2,220,222
To accrue for payroll benefits associated with the estimated vacation accrual for unused compensated absence balances as of June 30, 2017.	(35,286)
To accrue for employee wages and benefits earned as of June 30, 2017 but were not accrued. Due to the timing of the payroll, the pay date falls in July 2017, however, the expenditures were incurred as of June 30, 2017.	(231,792)
To write-off interfund loans which were deemed to not be collectible due to deficit net position of the Landfill Fund.	(53,440)
Net Position, governmental activities, as restated	\$ 3,988,530
<b>General Fund</b>	
Fund balance, general fund, as previously reported	\$ 4,800,536
To accrue for employee wages and benefits earned as of June 30, 2017 but were not accrued. Due to the timing of the payroll, the pay date falls in July 2017, however, the expenditures were incurred as of June 30, 2017.	(231,792)
To write-off interfund loans which were deemed to not be collectible due to deficit net position of the Landfill Fund.	(53,440)
Fund balance, general fund, as restated	\$ 4,515,304

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 14. RESTATEMENTS (CONTINUED)**

The County has determined restatements to beginning net position of business-type activities, the Water Fund, and the Landfill Fund were required (1) for the implementation of GASB Statement No. 75, which requires retroactive reporting of opening balances, (2) write-off the interfund loan from the General Fund which for which the Landfill Fund was deemed unable to repay, (3) to accrue wages and benefits which were incurred as of June 30, 2017 but were not accrued in prior years, and (4) to accrue payroll benefits associated with the accrued vacation as of June 30, 2017. The effect of the restatements resulted in a change to beginning net position of the business-type activities, the Water Fund, and the Landfill Fund, are as follows:

	<b>Business-type Activities</b>
Net Position, business-type activities, as previously reported	\$ 7,596,352
Restatement for implementation of GASB Statement No. 75:	
Total OPEB liability as of June 30, 2017	(366,354)
Deferred outflows of resources - contributions	6,507
Removal of prior Net OPEB obligation reported June 30, 2017 - Governmental activities	175,447
To accrue for employee wages and benefits earned as of June 30, 2017 but were not accrued. Due to the timing of the payroll, the pay date falls in July 2017, however, the expenditures were incurred as of June 30, 2017.	(15,522)
To write-off interfund loans which were deemed to not be collectible due to deficit net position of the Landfill Fund.	53,440
Net Position, business-type activities, as restated	\$ 7,449,870
	<b>Water Fund</b>
Net Position, Water Fund, as previously reported	\$ 7,597,328
Restatement for implementation of GASB Statement No. 75:	
Total OPEB liability as of June 30, 2017	(366,354)
Deferred outflows of resources - contributions	6,507
Removal of prior Net OPEB obligation reported June 30, 2017 - Governmental activities	175,447
To accrue for employee wages and benefits earned as of June 30, 2017 but were not accrued. Due to the timing of the payroll, the pay date falls in July 2017, however, the expenditures were incurred as of June 30, 2017.	(15,522)
Net Position, Water Fund, as restated	\$ 7,397,406

**NOTES TO FINANCIAL STATEMENTS**

**NOTE 14.      RESTATEMENTS (CONTINUED)**

	<b>Landfill Fund</b>
Net Position, Landfill Fund, as previously reported	\$ (976)
To write-off interfund loans which were deemed to not be collectible due to deficit net position of the Landfill Fund.	53,440
Net Position, Landfill Fund, as restated	\$ 52,464

The Gates County ABC Board (the “Board”) determined a restatement to the reporting of the pension related deferred inflows of resources and deferred outflows of resources was required to properly report the balances as of June 30, 2017. The beginning net position of the governmental activities is as follows:

	<b>Gates County ABC Board</b>
Net Position, as previously reported	\$ 709,689
Restatement for implementation of GASB Statement No. 75	2,084
Net Position, as restated	\$ 711,773

**NOTE 15.      SUBSEQUENT EVENT**

In July 2018 the County secured installment financing with Sterling National Bank for \$8.2 million to be used for the new Central Middle School Project. The loan carries an interest rate of 3.90% with semi-annual payments beginning May 1, 2019 and matures on May 1, 2038.

**REQUIRED SUPPLEMENTARY INFORMATION**

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## GATES COUNTY, NORTH CAROLINA

### REQUIRED SUPPLEMENTARY INFORMATION OPEB RETIREMENT PLAN SCHEDULE OF CHANGES IN THE COUNTY'S TOTAL OPEB LIABILITY AND RELATED RATIOS

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	<u>2018</u>
Total OPEB liability	
Service cost	\$ 242,984
Interest on total OPEB liability	138,268
Difference between expected and actual experience	14,055
Changes of assumptions and other inputs	(526,205)
Benefit payments	<u>(82,316)</u>
<b>Net change in total OPEB liability</b>	<b>(213,214)</b>
<b>Total OPEB liability - beginning</b>	<b>4,634,467</b>
<b>Total OPEB liability - ending</b>	<b><u>\$ 4,421,253</u></b>
<b>Covered-employee payroll</b>	<b>\$ 2,908,593</b>
<b>Total OPEB liability as a percentage of covered-employee payroll</b>	<b>152.0%</b>

**Notes to the Schedule:**

The schedule will present 10 years of information once it is accumulated.

**GATES COUNTY, NORTH CAROLINA**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY  
JUNE 30, 2018**

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE**

	<u>2018</u>	<u>2017</u>
Beginning balance of the total pension liability	\$ 167,183	\$ 158,357
Service Cost	10,060	11,291
Interest on the total pension liability	6,070	5,565
Difference between expected and actual experience	14,296	-
Changes of assumptions or other inputs	9,244	(3,062)
Benefit payments	(19,870)	(4,968)
Ending balance of the total pension liability	<u>\$ 186,983</u>	<u>\$ 167,183</u>

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**GATES COUNTY, NORTH CAROLINA**

**REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL  
LAST TWO FISCAL YEARS**

**LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE**

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	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 186,983	\$ 167,183
County's covered-employee payroll	\$ 455,307	\$ 501,080
Total pension liability as a percentage of covered-employee payroll	41.07%	33.36%

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

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.



**GATES COUNTY, NORTH CAROLINA**

**REQUIRED SUPPLEMENTARY INFORMATION  
COUNTY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)  
LAST FIVE FISCAL YEARS\***

**LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
County's proportion of the net pension liability (asset) (%)	0.04580%	0.04620%	0.04720%	-0.45000%	-0.04320%
County's proportion of the net pension liability (asset) (\$)	\$ 699,697	\$ 980,519	\$ 211,696	\$ (265,563)	\$ 520,726
County's covered payroll	\$ 2,750,420	\$ 2,702,668	\$ 2,573,301	\$ 2,404,383	\$ 2,061,051
County's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	25.44%	36.28%	8.23%	( 11.04%)	25.27%
Plan fiduciary net position as a percentage of the total pension liability	94.18%	91.47%	98.09%	102.64%	94.35%

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

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

# GATES COUNTY, NORTH CAROLINA

## REQUIRED SUPPLEMENTARY INFORMATION SCHEDULE OF CONTRIBUTIONS LAST FIVE FISCAL YEARS

### LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 221,586	\$ 202,740	\$ 182,772	\$ 186,050	\$ 171,421
Contributions in relation to the contractually required contribution	221,586	202,740	182,772	186,050	171,421
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's covered-employee payroll	\$ 2,896,549	\$ 2,750,420	\$ 2,702,668	\$ 2,573,301	\$ 2,404,383
Contributions as a percentage of covered-employee payroll	7.65%	7.37%	6.76%	7.23%	7.13%

# GATES COUNTY, NORTH CAROLINA

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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***Method and assumptions used in calculations of actuarially determined contributions:*** The actuarially determined contribution rates in the schedule of contributions are calculated as of December 31, one year prior to the end of the fiscal year in which contributions are reported.

**GATES COUNTY, NORTH CAROLINA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**COUNTY'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)**  
**LAST FIVE FISCAL YEARS\***

**REGISTER OF DEEDS' SUPPLEMENTAL PENSION FUND**

	<u>2018</u>		<u>2017</u>		<u>2016</u>		<u>2015</u>		<u>2014</u>
County's proportion of the net pension asset (%)	0.08709%		0.09573%		0.09429%		0.99820%		0.95160%
County's proportion of the net pension liability (asset) (\$)	\$ (14,865)	\$	(17,898)	\$	(21,851)	\$	(22,616)	\$	(20,326)
County's covered payroll	\$ 42,450	\$	42,242	\$	41,206	\$	43,333	\$	48,315
County's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	-35.02%		-42.37%		-53.03%		-52.19%		-42.07%
Plan fiduciary net position as a percentage of the total pension liability	153.77%		160.17%		197.29%		193.88%		194.35%

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

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

**GATES COUNTY, NORTH CAROLINA**  
**REQUIRED SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF CONTRIBUTIONS**  
**LAST FOUR FISCAL YEARS**

**REGISTER OF DEEDS' SUPPLEMENTAL PENSION FUND**

	2018	2017	2016	2015
Contractually required contribution	\$ 757	\$ 757	\$ 782	\$ 755
Contributions in relation to the contractually required contribution	757	757	782	755
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
County's covered-employee payroll	\$ 69,546	\$ 42,450	\$ 42,242	\$ 41,206
Contributions as a percentage of covered-employee payroll	1.09%	1.78%	1.85%	1.83%

Note: Schedule is intended to show information for the last 10 fiscal years. Additional years will be displayed as they become available.

# GATES COUNTY, NORTH CAROLINA

## NOTES TO REQUIRED SUPPLEMENTARY INFORMATION FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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***Method and assumptions used in calculations of actuarially determined contributions***: The actuarially determined contribution rates in the schedule of contributions are calculated as of December 31, one year prior to the end of the fiscal year in which contributions are reported.

## **NONMAJOR GOVERNMENTAL FUNDS**

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### **Special Revenue Funds**

**Emergency Telephone System Fund** -accounts for revenues from E-911 subscriber fees and wireless 911 fees and expenditures associated with the purchase and maintenance of emergency communications equipment for the enhanced 911 computer aided dispatch system.

**Local Fire Districts Fund** -accounts for the collection of special fire district taxes that are returned quarterly to the fire districts on a budgeted basis.

### **Capital Project Funds**

**Old Courthouse Restoration Fund** – accounts for restricted funds received from installment notes and intergovernmental grants for the restoration of the County’s historic courthouse.

**GATES COUNTY, NORTH CAROLINA**

**COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2018**

ASSETS	Special Revenue Funds		Capital Project Fund	Total Nonmajor Governmental Funds
	Emergency Telephone System	Fire Protection	Old Courthouse Restoration Project	
Cash and cash equivalents	\$ 49,447	\$ 7,993	\$ -	\$ 57,440
Accounts receivable	7,577	-	-	7,577
Due from other governments	6,807	-	-	6,807
Due from other funds	10,428	-	50,000	60,428
<b>Total assets</b>	<b>\$ 74,259</b>	<b>\$ 7,993</b>	<b>\$ 50,000</b>	<b>\$ 132,252</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable and accrued liabilities	\$ -	\$ 7,993	\$ -	\$ 7,993
Due to other funds	8,527	-	48,895	57,422
<b>Total liabilities</b>	<b>8,527</b>	<b>7,993</b>	<b>48,895</b>	<b>65,415</b>
<b>FUND BALANCES</b>				
Restricted:				
Public safety	65,732	-	-	65,732
Capital projects	-	-	1,105	1,105
<b>Total fund balances</b>	<b>65,732</b>	<b>-</b>	<b>1,105</b>	<b>66,837</b>
<b>Total liabilities and fund balances</b>	<b>\$ 74,259</b>	<b>\$ 7,993</b>	<b>\$ 50,000</b>	<b>\$ 132,252</b>



# GATES COUNTY, NORTH CAROLINA

## COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES NONMAJOR GOVERNMENTAL FUNDS FOR THE YEAR ENDED JUNE 30, 2018

	Special Revenue Funds		Capital Project Funds	Total Nonmajor Governmental Funds
	Emergency Telephone System	Fire Protection	Old Courthouse Restoration Project	
<b>REVENUES</b>				
Charges for services	\$ 90,925	\$ 242,325	\$ -	\$ 333,250
Investment earnings	1,332	-	-	1,332
Total revenues	92,257	242,325	-	334,582
<b>EXPENDITURES</b>				
Public safety	126,355	242,325	-	368,680
Capital outlay	-	-	172,267	172,267
Total expenditures	126,355	242,325	172,267	540,947
Deficiency of revenues over expenditures	(34,098)	-	(172,267)	(206,365)
<b>OTHER FINANCING SOURCES</b>				
Transfers in	-	-	50,000	50,000
Total other financing sources	-	-	50,000	50,000
Net change in fund balances	(34,098)	-	(122,267)	(156,365)
<b>FUND BALANCES, beginning of year</b>	99,830	-	123,372	223,202
<b>FUND BALANCES, end of year</b>	\$ 65,732	\$ -	\$ 1,105	\$ 66,837

# GATES COUNTY, NORTH CAROLINA

## GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS) FOR THE YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Revenues</b>				
<b>Ad valorem taxes:</b>				
Property taxes	\$ 6,695,719	\$ 6,695,719	\$ 7,073,067	\$ 377,348
Total ad valorem taxes	6,695,719	6,695,719	7,073,067	377,348
<b>Sales tax:</b>				
Local option sales tax	2,477,500	2,477,500	1,956,027	(521,473)
<b>Intergovernmental revenues:</b>				
Beer and wine tax	52,100	52,100	50,210	(1,890)
Federal and State grants	1,877,185	2,220,942	1,982,660	(238,282)
Lottery proceeds	111,930	111,930	25,500	(86,430)
ABC Revenue	5,000	5,000	5,427	427
Total intergovernmental revenues	2,046,215	2,389,972	2,063,797	(326,175)
<b>Charges for services:</b>				
Other charges	343,161	342,161	112,082	(230,079)
Total charges for services	343,161	342,161	112,082	(230,079)
<b>Investment earnings</b>	9,000	9,000	8,838	(162)
<b>Licenses, permits and fees:</b>				
Privilege licenses	167,340	167,340	167,941	601
Franchise fees	1,600	1,600	1,327	(273)
Total licenses, permits and fees	168,940	168,940	169,268	328
<b>Miscellaneous revenues:</b>				
Other	2,194	2,199	20,990	18,791
Total miscellaneous revenues	2,194	2,199	20,990	18,791
<b>Total revenues</b>	11,742,729	12,085,491	11,404,069	(681,422)

*continued*

**GATES COUNTY, NORTH CAROLINA**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Expenditures</b>				
<b>Current:</b>				
<b>General Government:</b>				
Governing body	90,813	91,517	70,149	21,368
Board of elections	136,442	136,899	112,046	24,853
Finance and administrative services	404,927	400,412	367,549	32,863
Customer service	28,351	34,179	17,894	16,285
Tax administration	319,283	362,110	336,715	25,395
Court facilities	20,500	20,500	18,929	1,571
Legal	30,000	30,000	15,050	14,950
Register of deeds	126,813	131,313	128,314	2,999
Buildings and grounds	436,021	372,466	602,594	(230,128)
Total	1,593,150	1,579,396	1,669,240	(89,844)
<b>Public Safety:</b>				
Sheriff	1,025,548	1,346,308	915,545	430,763
Emergency management	357,180	754,535	669,927	84,608
Jail	225,000	236,000	207,416	28,584
Fire protection	61,499	61,499	59,481	2,018
Building inspector	156,798	162,335	157,383	4,952
Medical examiner	7,500	12,500	16,600	(4,100)
Rescue squad	353,175	375,175	353,175	22,000
Animal control	46,000	46,000	44,867	1,133
Total	2,232,700	2,994,352	2,424,394	569,958
<b>Human Services:</b>				
Health	143,500	143,500	143,927	(427)
Social services administration	1,361,833	1,361,833	1,317,220	44,613
Special assistance for adults	115,000	115,000	109,725	5,275
Medical assistance	25,000	25,000	4,089	20,911
Special service services	354,550	367,058	107,892	259,166
Special appropriations	82,801	82,651	83,158	(507)
Total	2,082,684	2,095,042	1,766,011	329,031
<b>Education:</b>				
Current expenditures	2,714,000	2,714,000	2,714,000	-
Total	2,714,000	2,714,000	2,714,000	-
<b>Economic Development:</b>				
Planning and zoning	125,546	127,611	99,357	28,254
Soil and water conservation	101,597	158,015	129,240	28,775
Cooperative extension service	244,880	252,999	240,076	12,923
GITS	525,327	524,424	483,908	40,516
Total	997,350	1,063,049	952,581	110,468

*continued*

**GATES COUNTY, NORTH CAROLINA**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Culture and Recreation:</b>				
Libraries	96,743	96,743	96,743	-
Recreation	238,500	238,500	238,500	-
Total	<u>335,243</u>	<u>335,243</u>	<u>335,243</u>	<u>-</u>
<b>Debt Service:</b>				
Principal	541,738	541,738	544,870	(3,132)
Interest	93,549	93,549	90,416	3,133
Total	<u>635,287</u>	<u>635,287</u>	<u>635,286</u>	<u>1</u>
Total expenditures	<u>10,590,414</u>	<u>11,416,369</u>	<u>10,496,755</u>	<u>919,614</u>
Excess of revenues over expenditures	1,152,315	669,122	907,314	238,192
<b>Other financing sources (uses)</b>				
Proceeds from sale of capital assets	10,188	10,188	8,227	(1,961)
Transfers out	(1,162,503)	(2,310,623)	(3,040,502)	(729,879)
Appropriated fund balance	-	859,849	-	(859,849)
Total other financing sources (uses)	<u>(1,152,315)</u>	<u>(1,440,586)</u>	<u>(3,032,275)</u>	<u>(1,591,689)</u>
Net change in fund balances	-	(771,464)	(2,124,961)	(1,353,497)
<b>Fund balance, beginning of year</b>	<u>4,332,190</u>	<u>4,332,190</u>	<u>4,332,190</u>	<u>-</u>
<b>Fund balance, end of year</b>	<u>\$ 4,332,190</u>	<u>\$ 3,560,726</u>		<u>\$ (1,353,497)</u>
<b>Reconciliation to GAAP statements:</b>				
Beginning fund balance, Register of Deed Automation Fund			5,963	
Change in fund balance in Register of Deed Automation Fund			371	
Beginning fund balance, Capital Improvement Program Fund			-	
Change in fund balance in Capital Improvement Program Fund			103,598	
Beginning fund balance, Transit Fund			48,201	
Beginning fund balance, Revaluation Fund			128,950	
Change in fund balance in Revaluation Fund			72,255	
<b>Fund balance, General Fund</b>			<u>\$ 2,566,567</u>	

# GATES COUNTY, NORTH CAROLINA

## REGISTER OF DEED AUTOMATION FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS) FOR THE YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Revenues</b>				
Permits and fees	\$ 5,000	\$ 5,000	\$ 4,352	\$ (648)
Investment earnings	-	-	19	19
Total revenues	5,000	5,000	4,371	(629)
<b>Expenditures</b>				
<b>General government</b>				
Capital outlay	5,000	5,000	4,000	1,000
Total expenditures	5,000	5,000	4,000	1,000
Net change in fund balances	-	-	371	371
<b>Fund balance, beginning of year</b>	5,963	5,963	5,963	-
<b>Fund balance, end of year</b>	\$ 5,963	\$ 5,963	\$ 6,334	\$ 371

# GATES COUNTY, NORTH CAROLINA

## CAPITAL IMPROVEMENT PROGRAM FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS) FOR THE YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Expenditures</b>				
Education	\$ 300,000	\$ 300,000	\$ 300,000	\$ -
General government				
Capital outlay	316,748	351,748	214,034	137,714
Total expenditures	616,748	651,748	514,034	137,714
<b>Other financing sources</b>				
Transfers in	616,748	651,748	617,632	34,116
Net change in fund balances	-	-	103,598	103,598
<b>Fund balance, beginning of year</b>	-	-	-	-
<b>Fund balance, end of year</b>	\$ -	\$ -	\$ 103,598	\$ 103,598

# GATES COUNTY, NORTH CAROLINA

## REVALUATION FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS) FOR THE YEAR ENDED JUNE 30, 2018

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>Expenditures</b>				
<b>General Government</b>				
Revaluation	\$ -	\$ -	\$ -	\$ -
Total expenditures	-	-	-	-
<b>Other financing sources (uses)</b>				
Transfers in	36,255	36,255	72,255	36,000
Appropriated fund balance	(36,255)	(36,255)	-	36,255
Total other financing sources (uses)	-	-	72,255	72,255
Net change in fund balances	-	-	72,255	72,255
<b>Fund balance, beginning of year</b>	-	-	128,950	128,950
<b>Fund balance, end of year</b>	\$ -	\$ -	\$ 201,205	\$ 201,205

**GATES COUNTY, NORTH CAROLINA  
EMERGENCY TELEPHONE SYSTEM**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Charges for Services	\$ 97,155	\$ 97,155	\$ 90,925	\$ (6,230)
Investment earnings	-	-	1,332	1,332
Total revenues	<u>97,155</u>	<u>97,155</u>	<u>92,257</u>	<u>(4,898)</u>
<b>EXPENDITURES</b>				
Public safety	<u>97,155</u>	<u>189,114</u>	<u>126,355</u>	<u>62,759</u>
Deficiency of revenues over expenditures	-	(91,959)	(34,098)	57,861
<b>OTHER FINANCING SOURCES</b>				
Appropriation of fund balance	<u>-</u>	<u>91,959</u>	<u>-</u>	<u>(91,959)</u>
Net change in fund balances	-	-	(34,098)	(34,098)
<b>FUND BALANCE, beginning of year</b>	<u>99,830</u>	<u>99,830</u>	<u>99,830</u>	<u>-</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 99,830</u>	<u>\$ 99,830</u>	<u>\$ 65,732</u>	<u>\$ (34,098)</u>



**GATES COUNTY, NORTH CAROLINA  
FIRE PROTECTION**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Fire Protection Fees	\$ 260,000	\$ 260,000	\$ 242,325	\$ (17,675)
Total revenues	<u>260,000</u>	<u>260,000</u>	<u>242,325</u>	<u>(17,675)</u>
<b>EXPENDITURES</b>				
Public Safety	260,000	260,000	242,325	17,675
Total expenditures	<u>260,000</u>	<u>260,000</u>	<u>242,325</u>	<u>17,675</u>
Net change in fund balances	-	-	-	-
<b>FUND BALANCE, beginning of year</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE, end of year</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**GATES COUNTY, NORTH CAROLINA  
SCHOOL CAPITAL OUTLAY FUND**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>EXPENDITURES</b>				
Education	\$ -	\$ -	\$ 511,243	\$ (511,243)
Deficiency of revenues over expenditures	-	-	(511,243)	(511,243)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	459,500	459,500	1,073,135	613,635
Increase in fund balance	(459,500)	(459,500)	-	459,500
Net change in fund balances	-	-	1,073,135	1,073,135
Net change in fund balances	-	-	561,892	561,892
<b>FUND BALANCE, beginning of year</b>	<u>271,553</u>	<u>271,553</u>	<u>271,553</u>	<u>-</u>
<b>FUND BALANCE, end of year</b>	<u>\$ 271,553</u>	<u>\$ 271,553</u>	<u>\$ 833,445</u>	<u>\$ 561,892</u>

**GATES COUNTY, NORTH CAROLINA  
OLD COURTHOUSE RESORATION**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)  
PROJECT LIFE AS OF JUNE 30, 2018**

	Project	Actual		
	Authorization	Prior Years	Current Year	Total
<b>EXPENDITURES</b>				
Old courthouse resoration	\$ 555,000	\$ 381,628	\$ 172,267	\$ 553,895
Total expenditures	<u>555,000</u>	<u>381,628</u>	<u>172,267</u>	<u>553,895</u>
<b>OTHER FINANCING SOURCES</b>				
Transfers in	555,000	505,000	50,000	555,000
Total other financing sources	<u>555,000</u>	<u>505,000</u>	<u>50,000</u>	<u>555,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 123,372</u>	(122,267)	<u>\$ 1,105</u>
<b>FUND BALANCE, beginning of year</b>			<u>123,372</u>	
<b>FUND BALANCE, end of year</b>			<u>\$ 1,105</u>	

**GATES COUNTY, NORTH CAROLINA  
LANDFILL**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Transfer fees	\$ 767,085	\$ 767,085	\$ 689,696	\$ (77,389)
Intergovernmental	13,000	13,000	36,994	23,994
Other operating	21,000	21,000	35,339	14,339
Investment earnings	40	40	6	(34)
Total revenues	<u>801,125</u>	<u>801,125</u>	<u>762,035</u>	<u>(39,090)</u>
<b>EXPENDITURES</b>				
Administration	801,125	936,125	931,002	5,123
Total expenditures	<u>801,125</u>	<u>936,125</u>	<u>931,002</u>	<u>5,123</u>
Deficiency of revenues over expenditures	-	(135,000)	(168,967)	(33,967)
<b>OTHER FINANCING SOURCES</b>				
Transfers in	-	135,000	264,360	129,360
Total other financing sources	<u>-</u>	<u>135,000</u>	<u>264,360</u>	<u>129,360</u>
Net change in net position	<u>\$ -</u>	<u>\$ -</u>	95,393	<u>\$ 95,393</u>
Adjustments to full accrual:				
Depreciation expense			(560)	
Change in net position - GAAP Basis			<u>\$ 94,833</u>	

**GATES COUNTY, NORTH CAROLINA  
WATER**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN NET POSITION - BUDGET AND ACTUAL (NON-GAAP BASIS)  
FOR THE YEAR ENDED JUNE 30, 2018**

	Budget		Actual	Variance With Final Budget
	Original	Final		
<b>REVENUES</b>				
Charges for services	\$ 1,112,974	\$ 1,112,974	\$ 1,271,583	\$ 158,609
Investment earnings	5,000	5,000	14,968	9,968
Miscellaneous	67,000	67,000	42,594	(24,406)
Total revenues	<u>1,184,974</u>	<u>1,184,974</u>	<u>1,329,145</u>	<u>144,171</u>
<b>EXPENDITURES</b>				
Water operations	1,113,474	2,196,594	1,767,804	428,790
Sewer operations	74,500	74,500	22,345	52,155
Total expenditures	<u>1,187,974</u>	<u>2,271,094</u>	<u>1,790,149</u>	<u>480,945</u>
Deficiency of revenues over expenditures	(3,000)	(1,086,120)	(461,004)	625,116
<b>OTHER FINANCING SOURCES</b>				
Proceeds from sale of capital assets	3,000	3,000	8,649	5,649
Transfers in	-	-	845,049	845,049
Appropriation of fund balance	-	601,560	-	(601,560)
Total other financing sources	<u>3,000</u>	<u>604,560</u>	<u>853,698</u>	<u>249,138</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (481,560)</u>	392,694	<u>\$ 874,254</u>
Adjustments to full accrual:				
Net book value of disposal of assets			(1,305)	
Additions to capital assets			1,029,331	
Change in total OPEB liability and related deferrals			(4,404)	
Change in net pension liability and related deferrals			118,097	
Change in compensated absences			(4,233)	
Depreciation expense			(201,697)	
Change in net position - Waste Water Treatment Capital Project			118,071	
Change in net position - GAAP Basis			<u>\$ 1,446,554</u>	

**GATES COUNTY, NORTH CAROLINA  
WASTE WATER TREATMENT CAPITAL PROJECT**

**SCHEDULE OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL (NON-GAAP BASIS)  
PROJECT LIFE AS OF JUNE 30, 2018**

	Project	Actual		
	Authorization	Prior Years	Current Year	Total
<b>REVENUES</b>				
Restricted intergovernmental - CDBG	\$ 350,000	\$ 350,000	\$ -	\$ 350,000
Total expenditures	<u>350,000</u>	<u>350,000</u>	<u>-</u>	<u>350,000</u>
<b>EXPENDITURES</b>				
Capital Outlay	\$ 2,006,750	\$ 1,841,048	\$ -	\$ 1,841,048
Total expenditures	<u>2,006,750</u>	<u>1,841,048</u>	<u>-</u>	<u>1,841,048</u>
Deficiency of revenues over expenditures	(1,656,750)	(1,491,048)	-	(1,491,048)
<b>OTHER FINANCING SOURCES</b>				
Transfers in	1,656,750	1,490,346	118,071	1,608,417
Total other financing sources	<u>1,656,750</u>	<u>1,490,346</u>	<u>118,071</u>	<u>1,608,417</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (702)</u>	118,071	<u>\$ 117,369</u>
<b>FUND BALANCE, beginning of year</b>			<u>(702)</u>	
<b>FUND BALANCE, end of year</b>			<u>\$ 117,369</u>	

**GATES COUNTY, NORTH CAROLINA**  
**COMBINING STATEMENT OF ASSETS AND LIABILITIES**  
**AGENCY FUNDS**  
**JUNE 30, 2018**

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<u>ASSETS</u>	Social Services Fund	Town of Gatesville Agency Fund	Drainage District III Agency Fund	Emergency Medical Services Agency Fund	Total
Cash	\$ 198	\$ 3,304	\$ 30	\$ -	\$ 3,532
Total assets	\$ 198	\$ 3,304	\$ 30	\$ -	\$ 3,532
<u>LIABILITIES</u>					
Due to others	\$ 198	\$ 3,304	\$ 30	\$ -	\$ 3,532
Total liabilities	\$ 198	\$ 3,304	\$ 30	\$ -	\$ 3,532

**GATES COUNTY, NORTH CAROLINA**

**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
AGENCY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

		<u>Balance</u> <u>July 1, 2017</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2018</u>
<b><u>Social Services</u></b>					
<b>ASSETS</b>					
Cash		\$ 1,283	\$ -	\$ (1,085)	\$ 198
Total assets		<u>\$ 1,283</u>	<u>\$ -</u>	<u>\$ (1,085)</u>	<u>\$ 198</u>
<b>LIABILITIES</b>					
Due to others		\$ 1,283	\$ -	\$ (1,085)	\$ 198
Total liabilities		<u>\$ 1,283</u>	<u>\$ -</u>	<u>\$ (1,085)</u>	<u>\$ 198</u>
<b><u>Town of Gatesville</u></b>					
<b>ASSETS</b>					
Cash		\$ 2,092	\$ -	\$ 1,212	\$ 3,304
Total assets		<u>\$ 2,092</u>	<u>\$ -</u>	<u>\$ 1,212</u>	<u>\$ 3,304</u>
<b>LIABILITIES</b>					
Due to others		\$ 2,092	\$ -	\$ 1,212	\$ 3,304
Total liabilities		<u>\$ 2,092</u>	<u>\$ -</u>	<u>\$ 1,212</u>	<u>\$ 3,304</u>
<b><u>Drainage District III</u></b>					
<b>ASSETS</b>					
Cash		\$ 48	\$ -	\$ (18)	\$ 30
Total assets		<u>\$ 48</u>	<u>\$ -</u>	<u>\$ (18)</u>	<u>\$ 30</u>
<b>LIABILITIES</b>					
Due to others		\$ 48	\$ -	\$ (18)	\$ 30
Total liabilities		<u>\$ 48</u>	<u>\$ -</u>	<u>\$ (18)</u>	<u>\$ 30</u>
<b><u>Emergency Medical Services Agency Fun</u></b>					
<b>ASSETS</b>					
Cash		\$ -	\$ -	\$ -	\$ -
Total assets		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>LIABILITIES</b>					
Due to others		\$ -	\$ -	\$ -	\$ -
Total liabilities		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>



# GATES COUNTY, NORTH CAROLINA

## SCHEDULE OF AD VALOREM TAXES RECEIVABLE JUNE 30, 2018

Fiscal Year	Uncollected Balance June 30, 2017	Additions	Collections and Credits	Uncollected Balance June 30, 2018
2017-2018	\$ -	\$ 7,018,248	\$ 6,764,166	\$ 254,082
2016-2017	230,737	25	138,902	91,860
2015-2016	58,352	-	17,745	40,607
2014-2015	35,205	-	3,956	31,249
2013-2014	35,602	-	3,893	31,709
2012-2013	32,910	-	1,922	30,988
2011-2012	25,876	-	1,771	24,105
All- prior	91,661	-	27,905	63,756
	<u>\$ 510,343</u>	<u>\$ 7,018,273</u>	<u>\$ 6,960,260</u>	<u>568,356</u>
				Less: allowance for uncollectible accounts - General Fund
				<u>(233,531)</u>
				Ad valorem taxes receivable - net
				<u>\$ 334,825</u>
				<u>Reconciliation to revenues:</u>
				Ad valorem taxes - General Fund
				\$ 7,073,067
				Reconciling items:
				Less 60 day collections
				(49,294)
				Refunds issued
				16,338
				Interest and penalties
				(40,873)
				Miscellaneous adjustments
				(38,978)
				Total collections and credits
				<u>\$ 6,960,260</u>

# GATES COUNTY, NORTH CAROLINA

## ANALYSIS OF CURRENT TAX LEVY COUNTY-WIDE LEVY JUNE 30, 2018

	County - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Original levy:				
Property taxed at current rate	\$ 921,624,134	0.0076	\$ 7,004,343	\$ 6,245,679	\$ 758,664
Discoveries:					
Current year tax	1,833,550	0.0076	13,905	13,905	-
Penalties	-		-	40,873	-
Total	<u>923,457,684</u>		<u>7,018,248</u>	<u>6,300,457</u>	<u>758,664</u>
Adjustments	(718,214)	0.0076	(5,458)	(5,458)	-
Total property valuation	<u>\$ 922,739,470</u>				
Net levy			7,012,790	6,294,999	758,664
Uncollected taxes at June 30, 2018			<u>(254,082)</u>	<u>(254,082)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 6,758,708</u>	<u>\$ 6,040,917</u>	<u>\$ 758,664</u>
Current levy collection percentage			<u>96.38%</u>	<u>95.96%</u>	<u>100.00%</u>

## COMPLIANCE SECTION

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**INDEPENDENT AUDITOR'S 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***

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**To the Board of Commissioners  
Gates County, North Carolina**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Gates County, North Carolina (the "County") as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the County's basic financial statements, and have issued our report thereon dated June 25, 2019. Our report includes a reference to other auditors who audited the financial statements of the Gates County ABC Board, as described in our report on the County's financial statements. The financial statements of the Gates County ABC Board were not audited in accordance with *Government Auditing Standards*. Our report also includes a reference to the change in accounting principle resulting from the implementation of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017.

**Internal Control over Financial Reporting**

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

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Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs, as items 2018-001, 2018-002, 2018-003, 2018-004, 2018-005, 2018-006, and 2018-008 that we consider to be material weaknesses.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the County's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as item 2018-007.

#### **Gates County, North Carolina's Responses to Findings**

The County's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The County's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

#### **Purpose of this Report**

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





**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE AND THE STATE SINGLE AUDIT IMPLEMENTATION ACT**

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**To the Board of Commissioners  
Gates County, North Carolina**

**Report on Compliance for Each Major Federal Program**

We have audited Gates County, North Carolina's (the "County") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the County's major federal programs for the year ended June 30, 2018. The County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

***Management's Responsibility***

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

***Auditor's Responsibility***

Our responsibility is to express an opinion on compliance for each of the County's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance") and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the County's compliance.

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### ***Opinion on Each Major Federal Program***

In our opinion, the County complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

### **Report on Internal Control Over Compliance**

Management of the County is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the County's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the County's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

*Mauldin & Jenkins, LLC*

Atlanta, Georgia  
June 25, 2019



**GATES COUNTY, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURE OF FEDERAL AND STATE AWARDS  
YEAR ENDED JUNE 30, 2018**

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass- through Grantor Number	Expenditures	
			Federal	State
<b>FEDERAL AWARDS</b>				
<b>U.S. Department of Agriculture:</b>				
Passed through North Carolina Department of Health and Human Services				
Supplemental Nutrition Assistance Program:				
SNAP Administration	10.561		\$ 176,807	\$ -
Supplemental Nutrition Assistance Program Cluster:			176,807	-
<b>Total U.S. Department of Agriculture</b>			<b>176,807</b>	<b>-</b>
<b>U.S. Department of Transportation:</b>				
Passed through North Carolina Department of Transportation				
Formula Grants for Rural Areas	20.509	18-CT-067	107,200	6,700
Federal Transit - Capital Investment	20.500	18-ED-067	58,037	4,368
Federal Transit Cluster			58,037	4,368
<b>Total U.S. Department of Transportation</b>			<b>165,237</b>	<b>11,068</b>
<b>U.S. Department of Homeland Security</b>				
Passed through North Carolina Department of Crime Control and Public Safety				
Homeland Security Grant Program (HSGP)	97.067	EMA-2017-SS-00085	13,000	-
Homeland Security Grant Program (HSGP)	97.067	EMW-2016-SS-00011-S01	49,807	-
Homeland Security Grant Program (HSGP)	97.067	EMW-2015-SS-00062-S01	120,000	-
Homeland Security Grant Program (HSGP)	97.067	EMA-2017-SS-00085-S01	60,958	-
			243,765	-
Hazard Mitigation Grant	97.039		24	-
Hazard Mitigation Grant	97.039		10,000	-
			10,024	-
Emergency Management Performance Grant	97.042	EMA-2017-EP-00002-S01	18,017	-
Emergency Management Performance Grant	97.042	EMA-2017-EP-00005-S01	20,625	-
			38,642	-
<b>Total U.S. Department of Homeland Security</b>			<b>292,431</b>	<b>-</b>
<b>U.S. Department of Health and Human Services</b>				
Passed through North Carolina Department of Health and Human Services				
Child Care Development Cluster:				
Child Care Development Fund - Administration	93.596		59,732	-
Total Child Care Development Cluster			59,732	-
Temporary Assistance for Needy Families:				
TANF - Work First Administration	93.558		23,945	-
TANF - Work First Service	93.558		83,965	-
TANF - Payments and Penalties	93.558		52,160	7
Total Temporary Assistance for Needy Families Cluster			160,070	7
Foster Care Program:				
Foster Care Title IV-E	93.658		4,035	215
F/C At Risk Maximization	93.658		4,692	-
Total Foster Care			8,727	215
Adoption Program:				
IV-E Adoption	93.659		5,558	1,342
Total Adoption			5,558	1,342
Medicaid:				
Adult Care Home Case Management	93.778		4,773	927
State County Special Assistance	93.778		15,297	-
Medical Assistance - Administration	93.778		386,288	-
Medical Transportation Services	93.778		30,178	-
Total Medicaid Cluster			436,536	927
Social Services Block Grant:				
Social Services Block Grant	93.667		35,660	-
Social Services Block Grant - Family Planning	93.667		450	-
Social Services Block Grant - Other Services	93.667		67,381	-
Total Social Services Block Grant			103,491	-
Family Preservation	93.556		61	-
Low-Income Home Energy Assistance Program:				
Crisis Intervention Payments	93.568		27,557	-
Low Income Energy Administration	93.568		8,210	-
Low Income Energy Assistance	93.568		47,637	-
Total Low-Income Home Energy Assistance Grant			83,404	-
Permanency Planning - Service & Admin	93.645		2,282	-
Child Support Enforcement Program:				
IV-D Administration	93.563		129,636	-
Total Child Support Enforcement Grant			129,636	-

*Continued*

**GATES COUNTY, NORTH CAROLINA**

**SCHEDULE OF EXPENDITURE OF FEDERAL AND STATE AWARDS  
YEAR ENDED JUNE 30, 2018**

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Agency or Pass- through Grantor Number	Expenditures	
			Federal	State
<b>FEDERAL AWARDS (CONTINUED)</b>				
Children's Health Insurance Program (CHIP):				
North Carolina Health Choice	93.767		14,943	-
Total Child Support Enforcement Grant			14,943	-
<b>Total U.S. Department of Health and Human Services</b>			<b>1,004,440</b>	<b>2,491</b>
<b>TOTAL FEDERAL AWARDS</b>			<b>1,638,915</b>	<b>13,559</b>
<b>STATE AWARDS</b>				
<b>North Carolina Department of Health and Human Services:</b>				
<u>Division of Social Services:</u>				
CWS Adopt Subsidy & Vendor			-	858
State Child Welfare/CPS/CS LD			-	5,992
Total Division of Social Services			-	6,850
<b>Total North Carolina Department of Health and Human Services</b>			<b>-</b>	<b>6,850</b>
<b>North Carolina Department of Transportation:</b>				
<u>Rural Operating Assistance Program</u>				
Elderly and Disabled Transportation Assistance Program			-	103,778
ROAP Employment/Work First			-	2,315
Rural General Public Program			-	25,964
Total Rural Operating Assistance Program			-	132,057
<b>Total North Carolina Department of Transportation</b>			<b>-</b>	<b>132,057</b>
<b>North Carolina Department of Public Safety</b>				
Criminal Justice Partnership		737-xxxx	-	30,331
Genesis - JCPC Tutoring/Academic Enhancement		737-xxxx	-	30,968
<b>Total North Carolina Department of Public Safety</b>			<b>-</b>	<b>61,299</b>
<b>North Carolina Department of Public Instruction:</b>				
Public School Capital Building Fund - Lottery Proceeds			-	25,500
<b>Total North Carolina Department of Public Instruction</b>			<b>-</b>	<b>25,500</b>
<b>Local Emergency Planning Program</b>				
Local Emergency Planning Committee (LEPC)			-	1,000
<b>Total Local Emergency Planning Program</b>			<b>-</b>	<b>1,000</b>
<b>North Carolina Department of Agriculture &amp; Consumer Services</b>				
Soil & Water Conservation		17-175-4011	-	29,263
Surry Nuclear Power Plant			-	700
Scrap Tire Disposal			-	18,283
<b>Total North Carolina Department of Agriculture &amp; Consumer Services</b>			<b>-</b>	<b>48,246</b>
<b>TOTAL STATE AWARDS</b>			<b>-</b>	<b>274,952</b>
<b>TOTAL FEDERAL AND STATE AWARDS</b>			<b>\$ 1,638,915</b>	<b>\$ 288,511</b>

# GATES COUNTY, NORTH CAROLINA

## NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2018

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### NOTE 1. BASIS OF PRESENTATION AND ACCOUNTING

The accompanying Schedule of Expenditures of Federal and State Awards is presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures are recognized when the related Fund liability is incurred.

Federal grant programs which are administered through State agencies (pass-through awards) have been included in this report, including any funds expended for the State funded portion of those same programs.

The information in this schedule is presented in accordance with the requirements of Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the *State Single Audit Implementation Act*, therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

The County elected not to utilize the 10% de minimis indirect cost rate.

**GATES COUNTY, NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2018**

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**SECTION I  
SUMMARY OF AUDITOR'S RESULTS**

**Financial Statements**

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

Internal control over financial reporting:  
Material weaknesses identified?  yes  no

Significant deficiencies identified?  yes  none reported

Noncompliance material to financial statements noted?  yes  no

**Federal Awards**

Internal control over major programs:  
Material weaknesses identified:  yes  no

Significant deficiencies identified:  yes  none reported

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

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?  yes  no

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.778	Medicaid Cluster
93.563	Child Support Enforcement
20.509	Formula Grants for Rural Areas

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? No

**State Awards**

There was not an audit of major state awards programs for the year ended June 30, 2018 due to the total amount expended being less than \$500,000.

# GATES COUNTY, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

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### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES

#### 2018-001 Segregation of Duties

**Criteria:** Internal controls should be in place, which provide reasonable assurance that an individual cannot misappropriate funds without such actions being detected during the normal course of business.

**Condition:** The size of the County's accounting and administrative staff preclude internal controls that would be preferred if the office staff were large enough, to provide optimum segregation of duties. Appropriate segregation of duties was not noted within the following areas of the County: cash receipting, recording and reconciliation process; journal entry review; revenue and receivable recording; accounts payable and expense/expenditure recording; personnel and payroll recording; capital asset maintenance; and debt and debt service expenditures.

**Context/Cause:** Although the small size of the County's staff limits the segregation of duties, it is important that incompatible duties be assigned to different individuals and/or compensating controls implemented. No one employee should have access to both physical assets and the related accounting records, or to all phases of a transaction. During the course of our test-work, we noted the following areas where the County's control procedures were not sufficient to mitigate risks created due to insufficient oversight:

- During our walkthrough procedures it was noted the County does not have a documented independent review of the bank reconciliations. We recommend the County require the reviewer to document their review of the bank reconciliation on the reconciliation itself.
- There is not an independent review and reconciliation of the general ledger balances to the subsidiary ledgers for accounts payable and accounts receivable occurring on a timely basis.
- During our walkthrough procedures, it was noted the Payroll Coordinator has the ability to manually change or alter employee's worked hours each pay-period and once the time is altered, there is no independent review or approval of the changes before or after the payroll is processed. Segregation of duties issues arise as the Payroll Coordinator has the ability to input, change, and approve any hours worked or comp time awarded. In addition, it was noted no one is performing a secondary review of the payroll summary to verify that only valid new employees were added or that valid payroll changes were made. We recommend that a person other than the Payroll Coordinator review these changes and set up additional compensating controls to reduce the risk of misappropriation of assets.

# GATES COUNTY, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### 2018-001 Segregation of Duties (Continued)

**Effects:** Failure to properly segregate duties or implement compensating controls can lead to misappropriation of funds or abuse of the system that is not detected in a timely manner by employees in the normal course of performing their assigned functions.

**Recommendation:** We recommend the County segregate duties and/or implement compensating controls in the key areas noted above.

**Auditee's Response:** We will continue to review our operations to determine the most efficient and effective solution to properly segregate duties. The County has subsequently hired a Finance Director to assist in the segregation of duties.

# GATES COUNTY, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### 2018-002 Equity Reconciliations

**Criteria:** Internal controls should be in place to ensure that financial statements are properly presenting the financial position and results of operations of the County in accordance with generally accepted accounting principles.

**Condition:** Internal controls were not sufficient to detect misstatements in the reporting of the opening net position balances of the County's General Fund, Emergency Telephone System Fund, Water Fund, and Landfill Fund.

**Context/Cause:** During our testing, audit adjustments were required to adjust the opening fund balance or net position of the following funds:

- The General Fund's beginning balances included project length balances which required adjustments of approximately \$253,000 to remove the prior year activity from the revenues and expenditures in order to prepare the annual financial reporting balances.
- The General Fund's opening fund balance required adjustments of approximately \$104,000 to reconcile the beginning fund balance to the prior year audited balance. Additionally, there were approximately \$1,668,000 of adjustments to the opening balances of various balance sheet accounts in order to post unrecorded audit adjustments from the previous year.
- The Emergency Telephone System Fund's opening fund balance required adjustments of approximately \$44,000 to reconcile the beginning fund balance to the prior year audited balance.
- The Water Fund's opening net position required adjustments of approximately \$633,000 to reconcile the beginning net position to the prior year audited balance. Additionally, there were approximately \$658,000 of adjustments to the opening balances of various balance sheet accounts in order to post unrecorded audit adjustments from the previous year.
- The Landfill Fund's opening net position required adjustments of approximately \$47,000 to reconcile the beginning net position to the prior year audited balance. Additionally, there were approximately \$92,000 of adjustments to the opening balances of various balance sheet accounts in order to post unrecorded audit adjustments from the previous year.

**GATES COUNTY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

---

**SECTION II**  
**FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)**

**2018-002      Equity Reconciliations (Continued)**

**Effects:** Audit adjustments totaling approximately \$3,499,000 were needed to correct the County's opening fund balance or net position as of June 30, 2018.

**Recommendation:** We recommend the County carefully review all transactions to ensure all year-end closing entries, including those proposed by the auditors, are recorded in accordance with generally accepted accounting principles.

**Auditee's Response:** We concur with the finding and are currently implementing controls to ensure these year-end adjustments are considered and reflected in the general ledger, as appropriate. Some of the findings above are related to issues found by the auditors related to the June 30, 2017 audit. Staff was learning the new accounting software as a result of the system conversion this fiscal year. The County has since hired a new Finance Officer to help prevent this issue in future periods.



# GATES COUNTY, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### 2018-003 Expenditures/Expenses and Related Liability Accounts

**Criteria:** Generally, expenditures/expenses should be recognized as soon as a liability is incurred, regardless of the timing of the related cash flows in accordance with generally accepted accounting principles (GAAP).

**Condition:** Misstatements were detected in the reporting of the County's expenditures/expenses and the related balance sheet accounts.

**Context/Cause:** During our testing, audit adjustments were required to properly report the expenditures/expenses and related balance sheet accounts:

- An adjustment of approximately \$183,000 was required in the General Fund and the Landfill Fund to adjust the interfund loans made by the General Fund to the Landfill Fund, for which the Landfill Fund does not have the ability to repay. As such the prior year balance of approximately \$53,000 was adjusted against the opening equity of each fund, while the remaining \$130,000 was written off in the current year.
- An adjustment of approximately \$212,000 and \$27,000 was required in the General Fund and the Water Fund to accrue payroll wages which were incurred as of June 30, 2018 but were not disbursed until subsequent to June 30, 2018. At the same time, the County has not reported accrued wages in prior years and as such entries of approximately \$232,000 and \$16,000 were required in the prior year to the respective General Fund and Water Fund as of June 30, 2017.

**Effects:** Audit adjustments totaling approximately \$670,000 were required to correctly report the County's expenditures/expenses and related liabilities in accordance with GAAP.

**Recommendation:** We recommend the County carefully review all expenditures/expenses and related balance sheet accounts to ensure they are reported in the proper reporting period and in accordance with generally accepted accounting principles.

**Auditee's Response:** We concur with the finding. We will take necessary steps in the future to ensure that expenditures/expenses and their related liabilities are properly recorded.

# GATES COUNTY, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### 2018-004 Revenue Recognition

**Criteria:** Internal controls should be in place to ensure that amounts reported as revenues and related balance sheet accounts are appropriate, are properly valued, and are recorded in the proper period in accordance with generally accepted accounting principles.

**Condition:** Internal controls were not sufficient to detect misstatements in the reporting of the County's revenues and related balance sheet accounts.

**Context/Cause:** During our testing, an audit adjustment was required to adjust the following:

- An entry of approximately \$89,000 was required to adjust the outstanding property taxes receivable in the General Fund based on testing of the subsidiary ledgers maintained by the County.
- An entry of approximately \$452,000, with approximately \$204,000 adjusting the beginning fund balance, was required to adjust the accrued sales tax revenues of the General Fund. The State Department of Revenues is three months in arrears and the accrued revenues should be reported in the appropriate period.
- An adjustment of approximately \$75,000 was required to record the General Fund's grant receivables for grant expenditures which were incurred as of June 30, 2018 but were not collected as of June 30, 2018. Due to the availability of the funds, there was no revenue recognized through this transaction.
- In the General Fund, an adjustment of approximately \$34,000 was required to reconcile the interfund activity of the County.
- In the Water Fund, an adjustment of approximately \$501,000 was required to reconcile the County's general ledger to the County's subsidiary ledger for uncollected accounts receivable.

**Effects:** Total adjustments of approximately \$1,151,000 were required to bring the current year general ledger value in agreement with the subsidiary ledger, including approximately \$204,000 of the adjustment affecting opening fund balance.

**Recommendation:** We recommend the County carefully review all revenues to ensure they are reported in the proper reporting period and in accordance with generally accepted accounting principles.

**Auditee's Response:** We will take necessary steps in the future to ensure that revenues and related balance sheet accounts are properly recorded.

**GATES COUNTY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

---

**SECTION II**  
**FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)**

**2018-005    General Ledger Maintenance**

**Criteria:** Internal controls should be in place to ensure that financial statements properly present the financial position and results of the County in accordance with generally accepted accounting principles.

**Condition:** The County's reviews and manual adjustments were not sufficient to detect, correct, and prevent errors in the reporting of several general ledger accounts.

**Context/Cause:** During our audit for the year ended June 30, 2018, several misstatements were identified which were generated from the operation of the County's general ledger software. There were several adjustments required as a result of the audit to correct misstatements, and they are as follows:

- In the Water Fund, an adjustment of approximately \$3,053,000 was required to record the current year activity of the capital assets on a full accrual basis of accounting.
- In the Water Fund, an adjustment of approximately \$7,000 was required to adjust the general ledger balance of the fund's inventory based on testing of the subsidiary ledger.
- In the Water Fund, an adjustment of approximately \$4,000 was required to adjust the general ledger balance of the fund's compensated absences accrued liabilities based on testing of the County's subsidiary ledger.

**Effects:** Audit adjustments of approximately \$3,064,000 were needed to correctly report general ledger balances primarily related to the reconciliation of the Water Fund's subsidiary ledgers and the general ledger.

**Recommendation:** We recommend the County carefully review the financial statements and the underlying transactions involved in the reporting of the County's subsidiary ledgers, as well as the accruals of expenses.

**Auditee's Response:** We will take necessary steps in the future to the financial statements properly present the financial position and results of the County, in accordance with generally accepted accounting principles.

**GATES COUNTY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**SECTION II**  
**FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)**

**2018-006 Timely and Accurate Reporting of the Schedule of Expenditures of Federal and State Awards**

**Criteria:** 2 CFR 200.302(b)(1) states that all nonfederal entities must identify in its accounts all federal awards received and expended. The schedule of expenditures of federal and state awards (SEFSA), as required by 2 CFR 200.510(b), should be derived from, and relate directly to, the underlying accounting and other records used to prepare the financial statements for the County.

**Condition:** Internal controls were not in place to timely prepare, support, or reconcile the expenditures reported on the schedule of expenditures of federal and state awards (SEFSA) to the County's underlying accounting records. The County was not able to timely prepare the complete schedule of expenditures of federal and state awards until February 2019. Additionally, the County prepares the majority portion of the schedule of expenditures of federal and state awards based on revenues received from the State for state and pass-through federal funds.

**Context/Cause:** During the preparation of the schedule of expenditures of federal and state awards, it was noted the County was not preparing the report based on expenditures. The majority of the County's federal and state awards are related to health and human service grant activity, which is maintained outside of the County's finance department. As such, the County did not have procedures in place to permit for the reconciliation of the schedule of expenditures of federal and state awards to be reconciled to the underlying expenditures of the County.

**Effects:** Ultimately the County was able to provide the necessary underlying records to support the expenditures reported on the schedule of expenditures of federal and state awards, but the reconciliation was performed with the Finance department and the department of Social Services working together to go through the general ledger and supporting workpapers to reconcile the activity of the County to the SEFSA.

**Recommendation:** We recommend the County establish procedures to ensure all federal and state grant expenditures are included in the schedule of expenditures of federal and state awards (on an accrual basis) and that CFDA numbers are reported correctly. The County should utilize the County's general ledger system to separately track the expenditures which are program eligible in project codes to aide Finance in the reconciliation of the accounting system to the SEFSA.

**Auditee's Response:** We concur with the finding. We will take necessary steps in the future to properly track the expenditures of all federal and state funded programs. We will utilize the general ledger system of the County to aide in both the tracking but also the monthly reporting, in an attempt to minimize the manual calculations involved in the reconciliations.

**GATES COUNTY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**SECTION II**  
**FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)**

**2018-007    Annual Budget Adoption**

**Criteria:** North Carolina General Statute 159-8, *Annual Balanced Budget Ordinance*, requires that each local government shall operate under an annual balanced budget.

**Condition:** During the course of the fiscal year ended June 30, 2018, the County Board of Commissioners made multiple amendments to the originally adopted budget, which in aggregate resulted in the final approved budget of the General Fund and the Water Fund operating under a budget with an unbudgeted deficit of \$771,464 and \$481,560, respectively.

**Context/Cause:** During the course of the fiscal year, the budgets as presented to the Board did not appropriately include a budgeted use of reserves or appropriation of fund balance.

**Effects:** Ultimately the County's final approved budgets for the General Fund and the Water Fund included material, unbudgeted use of fund balance in final approved budgets.

**Recommendation:** We recommend the County carefully review all budget amendments to ensure all increases in the expenditure budget line items are appropriately offset with budgeted revenues or budgeted use of fund balance.

**Auditee's Response:** We concur with the finding. We will carefully review all future budget amendments to ensure all proposed amendments are appropriately balanced.

# GATES COUNTY, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE FISCAL YEAR ENDED JUNE 30, 2018

---

### SECTION II FINANCIAL STATEMENT FINDINGS AND RESPONSES (CONTINUED)

#### 2018-008 Timely Bank Reconciliations

**Criteria:** Internal controls should be in place to ensure bank accounts are timely reconciled throughout the fiscal year and reconciling items are properly handled and recorded correctly in the general ledger in accordance with generally accepted accounting principles.

**Condition:** Internal controls were not sufficient to facilitate the accurate, timely reporting of the County's cash balances throughout the year. Due to the turnover in the County's Finance Officer position and staff resources in the Finance Department, the County was not timely reconciling the cash accounts throughout the year.

**Context/Cause:** During the County's audit, we noted the County did not have the resources in-house to timely and accurately complete the monthly bank reconciliations for the fiscal year ended June 30, 2018.

**Effects/Possible Effects:** The County hired an outside accounting firm to come in and catch up the bank reconciliations for the fiscal year ended June 30, 2018. The outside firm was able to complete the fiscal year reconciliations and get the County's June 30, 2018 reconciliation performed and ready for the audit in October 2018, three months after the month's end.

**Recommendation:** We recommend the County strengthen controls and procedures to ensure all County bank accounts are properly and timely reconciled on a monthly basis. All unreconciled differences or items should be properly and timely researched and recorded appropriately to the County's general ledger in accordance with generally accepted accounting principles.

**Auditee's Response:** We concur with the finding. The County has since hired a new Finance Officer to help with the performance and reviews of the monthly bank reconciliations. The County will continue to evaluate staff size and job descriptions to ensure all reconciliations are timely and accurately performed as well as to ensure the monthly review of those reconciliations are being timely and accurately performed.

**GATES COUNTY, NORTH CAROLINA**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**SECTION III**  
**FEDERAL AWARD FINDINGS AND QUESTIONED COSTS**

None noted

**GATES COUNTY, NORTH CAROLINA**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**2017-001      Accounts Receivable Were Not Reconciled to the General Ledger**

**Condition:** Governmental and proprietary fund revenues and receivables, including property taxes, water and sewer charges and solid waste fees, were not reconciled to the general ledger, resulting in material adjustments to the trial balance.

**Context:** The revenues and receivable per the general ledger did not agree with billing and collections reports for the tax department and water sewer and solid waste. The estimates for allowance for doubtful accounts were understated and substantially less than actual past due receivables

**Current Status:** Repeat finding in 2018, see 2018-003.

**2017-002      Budget Interfund Transfers and Cost Allocations Were Not Reported**

**Condition:** Budget transfers and cost allocations approved in the budget ordinance were not recorded during the year resulting in material adjustments to the trial balance.

**Context:** Budget transfer and cost allocation were not recorded in a timely manner, resulting in several funds having significant losses and/or a deficit fund balance before the transfers were recorded. This also resulted in interfund receivables as several funds had a negative cash balances prior to the transfers

**Current Status:** The specific issue was corrected in the current year, however, there is a repeat finding with the budget process.

**2017-003      Current Year DSS Reimbursement Account Receivable Posted to the Following Year**

**Condition:** Though the form was completed accurately and was timely filed, the account receivable for June 2017 DSS Administrative Reimbursement was recorded as a revenue in fiscal year 2018 rather than current fiscal year.

**Context:** Revenues and accounts receivable were understated by one month DSS reimbursement.

**Current Status:** The issue was corrected in the current year.



**GATES COUNTY, NORTH CAROLINA**  
**SCHEDULE OF PRIOR AUDIT FINDINGS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2018**

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**2017-004      Significant Number of Reconciling items for Central Depository Bank Account**

**Condition:** The bank reconciliation for the County's central depository account included a significant number of reconciling items including some items aged beyond one year.

**Context:** The central depository bank account does not agree to bank statement due to significant reconciling items not being corrected in a timely manner.

**Current Status:** The issue was corrected in the current year.

**2017-005      Incorrect Water Bills**

**Condition:** During test of controls, two out of a sample of 40 water customers were billed at incorrect rates.

**Context:** The customers were not billed the correct amount for water usage for the month of November 2016 and February 2017.

**Current Status:** The issue was corrected in the current year.

**2017-006      General Information Technology Controls**

**Condition:** The County does not have a formal policy for granting and removing access to computers or IT systems. Also segregation of duties in the IT department was not maintained. Password parameters were also not enforced to login to IT system. The County has not performed a test of backup systems to ensure that data may be recovered in the event of data loss.

**Context:** The County was exposed to vulnerabilities in controls over the use of the County's information technology system.

**Current Status:** The issue was corrected in the current year.

# GATES COUNTY NORTH CAROLINA



Gates County  
200 Court Street  
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Phone (252) 357-2411  
Fax (252) 357-0073

## MANAGEMENT'S CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2018

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### 2018-001 Segregation of Duties

**Contact Person Responsible for the Corrective Action Plan:** Kim Outland, Financial Services Director

**Corrective Action Plan:** We will continue to review our operations to determine the most efficient and effective solution to properly segregate duties. The County has hired a new Financial Services Director to help oversee the finance department operations and to strengthen the accounting and reporting environment at the County.

**Anticipated Completion Date:** December 31, 2019

### 2018-002 Equity Reconciliations

**Contact Person Responsible for the Corrective Action Plan:** Kim Outland, Financial Services Director

**Corrective Action Plan:** We have reviewed the audit entries and all adjustments have been recorded in the County's general ledger. Additionally, we will perform periodic reconciliations of the general ledger to the prior year's audit to ensure there are no miscellaneous entries posted in error during the course of the fiscal year.

**Anticipated Completion Date:** June 30, 2019

### 2018-003 Expenditures / Expenses and Related Liability Accounts

**Contact Person Responsible for the Corrective Action Plan:** Kim Outland, Financial Services Director

**Corrective Action Plan:** The County has hired a new Financial Services Director to help oversee the finance department operations and to strengthen the accounting and reporting environment at the County.

**Anticipated Completion Date:** June 30, 2019

### 2018-004 Revenue Recognition

**Contact Person Responsible for the Corrective Action Plan:** Kim Outland, Financial Services Director

**Corrective Action Plan:** The County has hired a new Financial Services Director to help oversee the finance department operations and to strengthen the accounting and reporting environment at the County.

**Anticipated Completion Date:** June 30, 2019

# GATES COUNTY NORTH CAROLINA

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## MANAGEMENT'S CORRECTIVE ACTION PLAN FOR THE YEAR ENDED JUNE 30, 2018

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### 2018-005 General Ledger Maintenance

**Contact Person Responsible for the Corrective Action Plan:** Kim Outland, Financial Services Director

**Corrective Action Plan:** The County has hired a new Financial Services Director to help oversee the finance department operations and to strengthen the accounting and reporting environment at the County.

**Anticipated Completion Date:** June 30, 2019

### 2018-006 Timely and Accurate Reporting of the Schedule of Expenditures of Federal and State Awards

**Contact Person Responsible for the Corrective Action Plan:** Kim Outland, Financial Services Director

**Corrective Action Plan:** The County has hired a new Financial Services Director to help oversee the finance department operations and to strengthen the accounting and reporting environment at the County.

**Anticipated Completion Date:** June 30, 2019

### 2018-007 Annual Budget Adoption

**Contact Person Responsible for the Corrective Action Plan:** Kim Outland, Financial Services Director

**Corrective Action Plan:** The County has hired a new Financial Services Director to help oversee the finance department operations and to strengthen the accounting and reporting environment at the County.

**Anticipated Completion Date:** June 30, 2019

### 2018-008 Timely and Accurate Bank Reconciliations

**Contact Person Responsible for the Corrective Action Plan:** Kim Outland, Financial Services Director

**Corrective Action Plan:** The County has hired a new Financial Services Director to help oversee the finance department operations and to strengthen the accounting and reporting environment at the County.

**Anticipated Completion Date:** June 30, 2019