Management’s Discussion and Analysis

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For the Year Ended June 30, 2022

As management of Carolina County, we offer readers of Carolina County’s financial statements this narrative overview and analysis of the financial activities of Carolina County for the fiscal year ended June 30, 2022. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the County’s financial statements which follow this narrative.

**Note to preparer**: The MD&A is an opportunity for management to proactively address any issues that might be affecting the unit’s financial status including the effects of the coronavirus,uses of American Rescue Plan Act (ARPA) funds, and other items that may answer questions that might be posed by readers of the financial statements. A thoughtful discussion and analysis of the local economy, financial position, or budgetary factors that might influence the unit should be presented.

# Financial Highlights

* The assets and deferred outflows of resources of Carolina County exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by $22,765,299(*net position*)
* The government’s total net position increased by $474,741, primarily due to improved revenue collection efforts and controlled expenses, as well as the implementation of GASB Statement No. 84, *Fiduciary Activities*, which created three new special revenue funds that were once treated as agency funds.
* As of the close of the current fiscal year, Carolina County’s governmental funds reported combined ending fund balances of $14,479,358, after a net increase in fund balance of $886,815. Approximately 50.7% of this total amount, or $7,344,919 is restricted or non-spendable.
* At the end of the current fiscal year, unassigned fund balance for the General Fund was $5,361,210 or 5.89% of total general fund expenditures and transfers out for the fiscal year.

**Note to preparer**: - Continue to list any other significant financial highlights here.

# Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Carolina County’s basic financial statements. The 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 (see 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 Carolina County.

## Required Components of Annual Financial Report

Figure 1

Basic

Financial

Statements

Government-wide Financial

Statements

Management’s Discussion and Analysis

Fund

Financial

Statements

Notes to the

Financial Statements

Summary Detail

**Basic Financial Statements**

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

The next statements (Exhibits 3 through 11) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the County’s government. These statements provide 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 fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the County’s non-major governmental funds and internal service funds, all of which are added together in one column on the basic financial statements. Budgetary information required by the General Statutes also can 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 and benefit 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, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the County’s financial status as a whole.

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the County’s basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the County charges customers to provide. These include the water and sewer and landfill services offered by Carolina County. The final category is the component units. Carolina County Hospital is a public hospital operated by a not-for-profit corporation that has leased the hospital from the County for the next 99 years. The County appoints the board of trustees for the Hospital and has issued debt on its behalf. Carolina County ABC Board is legally separate from the County however the County is financially accountable for the Board by appointing its members. Also, the ABC Board is required to distribute its profits to the County.

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

**Fund Financial Statements**

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

Carolina 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 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 original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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

**Fiduciary Funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Carolina County has three fiduciary funds, one of which is an OPEB trust fund for reporting purposes and two of which are custodial funds.

**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 start on page 43 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Carolina County’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 118 of this report.

# Government-Wide Financial Analysis

**Note to Preparer.** GASBS 34 ¶9. Indicates that the “MD&A should discuss the current-year results in comparison with the prior year, with emphasis on the current year. This fact-based analysis should discuss the positive and negative aspects of the comparison with the prior year. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information.”

GASBS 34 ¶11.c. provides for, at a minimum, inclusion of “[a]n analysis of the government's overall financial position and results of operations to assist users in assessing whether financial position has improved or deteriorated as a result of the year's operations. The analysis should address both governmental and business-type activities as reported in the government-wide financial statements and should include *reasons* for significant changes from the prior year, not simply the amounts or percentages of change. In addition, important economic factors, such as changes in the tax or employment bases, that significantly affected operating results for the year should be discussed.”

As noted earlier, net position may serve over time as one useful indicator of a government’s financial condition. The County’s assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources by $23,238,528 as of June 30, 2022. The County’s net position increased by $474,741 in the same period. One of the largest portions $17,685,265 reflects the County’s net investment in capital assets (e.g., land, buildings, machinery, and equipment). Carolina County uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Carolina County’s investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of Carolina County’s net position $6,843,773 represents resources that are subject to external restrictions on how they may be used.

## Carolina County’s Net Position

Figure 2



Several particular aspects of the County’s financial operations positively influenced the total unrestricted governmental net position:

**Note to preparer** - List here anything you wish to highlight – fee revenue or tax revenue increases due to economic growth, reductions in spending, savings from debt refunding, new operating grants received, etc. The following language is just an example based on Carolina County. Also, please note the statewide tax collection average changes annually and can be found in the most current years’ [*Management of Cash and Taxes and Fund Balance Available - Municipalities for the Fiscal Year Ended June 30, 20XX*.](https://www.nctreasurer.com/state-and-local-government-finance-division/local-government-commission/memo-document) At the date of publication, the most current rate had not been determined.

* Continued diligence in the collection of property taxes by maintaining a collection percentage of 97.93%, which is slightly lower than the statewide average of ­­­­­\_\_\_\_%

**Note to preparer** – The statewide average collection percentage will be available on our website under [State and Local Government Finance Division Memos](https://www.nctreasurer.com/state-and-local-government-finance-division/local-government-commission/memo-document). The memo will be titled *Management of Cash and Taxes and Fund Balance Available – Municipalities for the Fiscal Year Ended June 30, 2021.*At the date of publication, the most current rate had not been determined.

* Increased charges for services revenue due to growth in the use of County facilities.
* Continued low cost of debt due to the County’s history of capital planning and high bond rating.
* Management’s proactive stance on monitoring spending across County departments to ensure compliance with the budget.

## Carolina County’s Changes in Net Position

**Figure 3**



**Governmental activities**. Governmental activities increased the County’s net position by $1,512. Key elements of this increase are as follows:

**Note to preparer** - List here anything you wish to highlight with regards to governmental activities as a factor in increasing or decreasing your net position. The following language is an example based on Carolina County.

**Note to preparer** – If the effects of the implementation of GASB Statement No. 84 result in a significant change in the financial position, consider addressing the changes here.

**Business-type activities.** Business-type activities increased Carolina County’s net position by $473,229. Key elements of this increase are as follows:

**Note to preparer** - List here anything you wish to highlight with regards to business-type activities as reasons for increases in net position.

* Water and sewer fees increased to help cover the cost of providing the service.
* Continued diligence in water and sewer revenue collections, consistent application of the cut-off policy and resolution of delinquent accounts improved collections; and
* Reduced costs in operation of landfill.

## Financial Analysis of the County’s Funds

**Note to Preparer.** GASBS 34 ¶11.d. provides for, at a minimum, inclusion of “[a]n analysis of balances and transactions of individual funds. The analysis should address the reasons for significant changes in fund balances or fund net assets and whether restrictions, commitments, or other limitations significantly affect the availability of fund resources for future use.

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

**Governmental Funds**. The focus of Carolina County’s governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Carolina 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.

The General Fund is the chief operating fund of Carolina County. At the end of the current fiscal year, Carolina County’s fund balance available in the General Fund was $8,023,913,, while total fund balance reached $13,849,303 The Governing Body of Carolina County has determined that the county should maintain a minimum available fund balance of 8% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the County. The County currently has an available fund balance of 8.84% of general fund expenditures, while total fund balance represents 16.15% of that same amount.

**Note to Preparer:** The following link is provided to assist with the calculation of Fund Balance Available (FBA) and Restricted for Stabilization by State Statute <https://www.nctreasurer.com/state-and-local-government-finance-division/local-government-commission/municipalities-financial-statement-resources#additional-worksheet-tools>

At June 30, 2022, the governmental funds of Carolina County reported a combined fund balance of $14,479,358 a 11.74% increase over last year. This increase resulted from improved tax collections and a staff reorganization that eliminated redundancy and increased efficiency.

**General Fund Budgetary Highlights.** During the fiscal year, the County revised the budget on several occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased all revenues by only $1,524,996.

**Note to preparer** - Insert here a brief discussion about differences between budgeted and actual numbers and why this occurs, if material.

**Proprietary Funds**. Carolina County’s proprietary funds provide the same type of information found in the government-wide statements but in more detail. At the end of the fiscal year, unrestricted net position of the Landfill Fund amounted to ($31,536), and $179,484 for the Water and Sewer District No.1 Fund. The total changes in net position for both major funds were $($3,298) and $469,161, respectively. Other factors concerning the finances of these funds have already been addressed in the discussion of Carolina County’s business-type activities.

**Note to preparer** – Discussions should be limited to major funds of the primary government.

# Capital Asset and Debt Administration

**Note to Preparer.** GASBS 34 ¶11.d. provides for, at a minimum, inclusion of “[a] description of significant capital asset and long-term debt activity during the year, including a discussion of commitments made for capital expenditures, changes in credit ratings, and debt limitations that may affect the financing of planned facilities or services.

**Capital assets.** Carolina County’s capital assets for its governmental and business – type activities as of June 30, 2022, totals $23,119,343 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include:

**Note to preparer** - List major activities, including demolitions. Include summary of acquisitions and disposals in each major fund. The following is an example based on Carolina County.

* Purchased new equipment for the Public Safety Department
* Purchased new vehicles for County motor pool
* Disposed of old equipment in the Public Safety Department
* Sold unused park land
* Addition of construction in progress on the park renovation and construction of the outdoor theater
* Addition of construction in progress on Water and Sewer plant facilities

## Carolina County’s Capital Assets

**(net of depreciation)**

Figure 4



Additional information on the County’s capital assets can be found in Note III.A.5 of the Basic Financial Statements.

**Long-term Debt**. As of June 30, 2022, Carolina County had total bonded debt outstanding of $13,880,000 all of which is debt backed by the full faith and credit of the County.

**Carolina County’s Outstanding Debt**

Figure 5

As mentioned in the financial highlights section of this document, Carolina County maintained for the 15th consecutive year, its Aa1 bond rating from Moody’s Investor Service and AA+ rating from Standard and Poor’s Corporation and FitchRatings. This bond rating is a clear indication of the sound financial condition of Carolina County. This achievement is a primary factor in keeping interest costs low on the County’s outstanding debt.

The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within that government’s boundaries. The legal debt margin for Carolina County is $501,508,008. The County has $1,250,000 in bonds authorized but unissued at June 30, 2022.

Additional information regarding Carolina County’s long-term debt can be found in Note III.B.7 of this audited financial report.

# Economic Factors and Fiscal Year End 2022 Budgets and Rates

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

**Note to Preparer.** GASBS 34 ¶11.h. provides for, at a minimum, inclusion of “…a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net assets) or results of operations (revenues, expenses, and other changes in net assets).”

* The County is enjoying a low unemployment rate of 4.3%, lower than the state average of 5.1%.
* Retail vacancy rates are low, having stayed in the 5%-10% range all year. Management is implementing programs which will allow it to capitalize on manufacturing growth and believes that retail vacancy rates will continue to remain low in the near future.
* New manufacturing jobs were created in the last year bringing 4,000 new jobs to the County.
* The County is home to a diversified business base – many different sectors of business reside in Carolina County. Management believes this diversity has helped buffer the effects of the economic recession that has affected other regions in the State.

 **Impact of Coronavirus on the County.** During the fiscal year, the state and the nation were affected by the spread of a coronavirus. The Carolina County’s response to the coronavirus included….

**Note to Preparer -**Please describe the financial and economic effects that the coronavirus has had on your County during the year and any action taken to moderate the impact.

The GASB **“Emergency Toolbox”** designed to help quickly identify the authoritative guidance that could be relevant to the current circumstances may be found [here](https://www.gasb.org/cs/Satellite?c=Page&cid=1176174469582&pagename=GASB%2FPage%2FGASB%2FSectionPage). North Carolina Local Government COVID-19 resources may be found [here](https://www.nctreasurer.com/local-government-covid-19-resources).

**Budget Highlights for the Fiscal Year Ending June 30, 2022**

**Note to preparer** - Add discussion here about the Governmental Activities, Business – Type activities, and the General Fund budget for the **upcoming** fiscal year that you wish to highlight.

**Governmental Activities** Property taxes (benefiting from the economic growth) and revenues from permits and fees are expected to lead the increase in revenue projections by 2.0%. The County will use these increases in revenues to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to rise approximately 2.69% to $89,500,900. The largest increments are in employee compensation, including funding compensation and benefits adjustments.

The County has chosen not to appropriate fund balance in the fiscal year 2023 budget. Management believes that increased revenues and continued restrictions on spending will maintain the County’s financial position. As the County considers future revenue sources, it will weigh the benefit of increasing the property tax rate against the cost. Though management believes current growth will generate enough revenue to support County operations, a careful analysis of property tax revenue will be considered in future years’ budgets.

**Business – type Activities:** The water and sewer rates in the County will increase by 5%, primarily to cover increased costs of operations and infrastructure maintenance. General operating expenses will increase by 2% to cover increased personnel costs, and 2.5% to cover increased costs of material, supplies, and other operating expenses. Rates for landfill services will increase by an average of 4% to cover an equal increase in operating costs there, primarily in personnel costs and equipment maintenance expense.

## Requests for Information

This report is designed to provide an overview of the County’s finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Sara Spartan, Director of Finance, Carolina County, 123 Dogwood Lane, Dogwood, North Carolina 00000. You can also call (000)-000-0000, visit our website www.carolinacounty.com or send an email to samplecounty@carolina.com for more information.