NORTH CAROLINA
DEPARTMENT OF STATE TREASURER

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STATE TREASURER OF NORTH CAROLINA

STATE AND LOCAL GOVERNMENT FINANCE DIVISION
AND THE LOCAL GOVERNMENT COMMISSION

DENISE H. CANADA
DIVISION DIRECTOR

Memorandum #2027-03

TO: **Local Government Finance Officials and Their Independent Auditors**

FROM: **Kendra Boyle, Director, Fiscal Management Section**

SUBJECT: **GASB Statement No. 103, *Financial Reporting Model Improvements***

DATE: **November 10, 2026**

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 103, *Financial Reporting Model Improvements*, (Statement 103) in April 2024. GASB Statement No. 103 revises six areas of the state and local governmental financial reporting model: Management Discussion and Analysis (MD&A); unusual or infrequent items; the proprietary fund statement of revenues, expenses, and changes in fund net position; major component unit information; budgetary comparison information; and financial trends information in the statistical section. A review of previous standards found they generally were effective but that there were aspects that could be significantly improved. This statement became effective for fiscal years beginning after June 15, 2025, which means that it is now in effect for most local governments and public authorities in North Carolina.

Illustrative financial statements are available on the State and Local Government Finance Division website that show implementation of GASB 103 and other auditing standards.

Executive Summary

Statement 103 introduces targeted improvements to the governmental financial reporting model intended to enhance clarity, comparability, and the usefulness of financial information for decision makers.

The statement revises key components of Management's Discussion and Analysis (MD&A), requires separate presentation of unusual or infrequent items, and updates the structure of proprietary fund statements to clearly distinguish between operating and nonoperating revenues and expenses while adding a new subtotal for operating income (loss) and noncapital subsidies.

It also mandates separate presentation of major component units to improve transparency and eliminates the option to disclose this information solely in the notes. Budgetary comparison schedules must now be presented exclusively as Required Supplementary Information (RSI) rather than a basic financial statement and must include separate variance columns.

Additionally, Statement 103 updates guidance for governments that present a statistical section, with new requirements for reporting changes in net position within the statistical section for governments that report only in business-type activities, or only in business-type and fiduciary activities. Local governments should begin

assessing reporting impacts, updating financial statement formats, and revising MD&A content to ensure compliance for fiscal years beginning after June 15, 2025.

This memorandum is organized as follows:

- Scope
- A. MD&A
- B. Unusual or Infrequent Items
- C. Presentation of the Proprietary Fund Financial Statement of Revenues, Expenses, and Changes in Fund Net Position (Operating and Nonoperating Activities in Proprietary Funds)
- D. Major Component Units
- E. Budgetary Comparison Information
- F. Information about Changes in Net Position in the Statistical Section
- Exhibit 1: MD&A for Town of Carolina Example (Illustrative Example)

Scope

Statement 103 applies to the financial reports of all state and local governments that follow GASB standards. This memorandum explains the requirements in each area affected by Statement 103. It provides implementation guidance and illustrative examples intended primarily for North Carolina local governments, public authorities, and their independent auditors. This memorandum should be used together with the complete requirements of Statement 103.

A. Management Discussion and Analysis

At a high level, Statement 103 continues to require that the MD&A appear before the basic financial statements and be presented as Required Supplementary Information (RSI). The MD&A should provide an objective, concise, and readable analysis of the primary government's financial activities, including straightforward comparisons between the current and prior year. Because the MD&A is intended for users with varying levels of financial expertise, it should explain significant current-year changes in plain language and avoid unnecessary repetition or dense text.

The analysis should focus on events and conditions that had a meaningful impact on financial results and offer context to help readers interpret the information presented. Statement 103 also retains the requirement to distinguish between the primary government and any discretely presented component units. The level of detail provided for component units remains a matter of professional judgment, and, when appropriate, the MD&A may direct readers to those units' separately issued financial statements.

MD&A should discuss the current-year balances and results of operations in comparison with the prior year, with emphasis on the current year. This analysis should be fact based and should discuss the activities that have had either a significant positive impact or a significant negative impact on the government's balances and results of operations in comparison with the prior year. The analysis should assist users in understanding why balances and results of operations reported in the current year's financial statements changed from the prior year rather than simply presenting the amounts or percentages by which they changed. The use of charts, graphs, and tables is encouraged to enhance the understandability of the information.

Additional guidance on MD&A content requirements under Statement 103 is discussed in the sections that follow.

Statement 103 moves the discussion of budgetary analysis and infrastructure assets reported under the modified approach (if applicable) from MD&A to the notes to RSI. The MD&A should focus on information in the basic financial statements and include facts or conditions that may affect future periods.

The MD&A should include the following five sections:

(1) Overview of Basic Financial Statements – This section should explain how the financial statements relate to one another and highlight the key differences in the types of information each statement provides.

(2) Financial Summary – This section should compare the current- and prior-year governmental activities and business-type activities. The summary should include the condensed line items and any other information necessary to support the analysis that follows. As applicable, it should address:

- Total assets, distinguishing capital assets from other assets;
- Deferred outflows of resources;
- Total liabilities, distinguishing long-term liabilities from other liabilities;
- Deferred inflows of resources;
- Total net position by component;
- Program revenues by major source;
- General revenues by major source;
- Total revenues;
- Program expenses by function or identifiable activity;
- Total expenses;
- The intermediate result before endowment contributions, transfers, and unusual or infrequent items;
- Endowment or permanent-fund-principal contributions;
- Transfers;
- Unusual or infrequent items; and
- Beginning net position, change in net position, and ending net position.

(3) Detailed Analyses

a) Government wide results. This section should analyze significant changes in the primary government's financial position and results of operations, separately addressing governmental activities and business-type activities. The discussion should identify the magnitude of each significant change, including the amounts or percentages of the change, and explain why the change occurred. It also should provide relevant context that readers may not know, including policy decisions and economic developments that affected the current-year results. The explanation should keep in mind that not all readers of the financial statements may be familiar with the government's geographic area or other local information.

b) Major Fund Results – This section should analyze the fund balance or net position and the results of operations of each major fund. It should identify significant changes, explain their magnitude and causes, and provide relevant facts, decisions, or conditions that users may not know. The discussion should describe any restrictions, commitments, or assignments that significantly affect the availability of the fund's resources for future

use. To avoid unnecessary duplication, the major fund analysis may refer to explanations already provided in the government-wide analysis when appropriate.

(4) Significant Capital Asset and Long-Term Financing Activity – The capital asset activity includes intangible capital assets, a discussion of significant additions, disposals, and significant policy changes and economic factors.
The long-term financing activity should include debt, leases, public-private and public-public partnerships (PPPs), and subscription-based information technology arrangements (SBITAs), while also discussing new agreements, changes in credit rating, debt limits, discussion of significant policy changes, and economic factors. Avoid duplication with the Detailed Analysis Section mentioned above.

(5) Currently Known Facts, Decisions, or Conditions – This section should describe facts, decisions, or conditions known to management as of the financial-statement issuance date that are expected to significantly affect future financial position or produce significant differences from current-period operating results.

Relevant information may include:

- Economic and demographic trends;
- Factors used to develop the subsequent-year budget, including expected changes in revenues or planned spending;
- Expected changes in budgetary fund balance or net position;
- Government actions involving postemployment benefit obligations, capital-improvement plans, leases, public-private or public-public partnerships, subscription-based information technology arrangements, or other long-term financing; and
- Laws, regulations, or other actions taken by outside parties that are expected to affect the government in a subsequent period.

These examples are not exhaustive. Other currently known matters expected to have a significant future financial effect should also be discussed.

Authoritative reference: GASB Statement No. 103, paragraphs 4–8.

For more details, please refer to Statement 103. For an example of the Management's Discussion and Analysis (MD&A) for the Town of Carolina, please see Exhibit 1 below.

B. Unusual or Infrequent Items

Statement 103 defines unusual or infrequent items as transactions and other events that are either unusual in nature **or** infrequent in occurrence. This replaces “extraordinary items” and “special items” under GASB Statement No. 34, which defined extraordinary items as both unusual **and** infrequent. Special items were significant transactions or other events within management’s control that were either unusual in nature or infrequent in occurrence.

Governments are required to display the inflows and outflows related to each unusual or infrequent item separately, and they must appear as the final flows of resources before the net change in resource flows in the government-wide, governmental fund, and proprietary fund statements.

Inflows and outflows related to each unusual or infrequent item should not be netted but rather presented separately on the government-wide statement of activities; the governmental fund statement of revenues, expenditures, and changes in fund balances; or the proprietary fund statement of revenues, expenses, and changes in fund net position. The notes should identify the related program, function, or activity, when applicable, and state whether the item was within management's control.

For an example of this disclosure, please refer to Exhibit 6 for the City of Dogwood financial statements on our website.

C. Presentation of the Proprietary Fund Financial Statement of Revenues, Expenses, and Changes in Fund Net Position (Operating and Nonoperating Activities in Proprietary Funds)

Statement 103 continues to require that proprietary fund statements distinguish between operating and nonoperating revenues and expenses. However, the statement introduces two key changes:

1) It updates the presentation of the proprietary fund statement of revenues, expenses, and changes in net position. Statement 103 requires noncapital subsidies to be reported separately and adds the subtotal “operating income (loss) and noncapital subsidies” before other nonoperating revenues and expenses.

2) It also revises the definition of nonoperating revenues and expenses. Nonoperating revenues and expenses include:

(1) subsidies received and provided,
(2) contributions to permanent and term endowments,
(3) revenues and expenses related to financing activities,
(4) resources from the disposal of capital assets and inventory, and
(5) investment income and expenses.

Please note that an item that normally falls within one of those categories is classified as operating when it is part of the proprietary fund's principal ongoing operations.

Per GASB 103 paragraph 14, the definition of “subsidies” is:

(a) Resources received from another party or fund
(1) for which the proprietary fund does not provide goods and services to the other party or fund and
(2) that directly or indirectly keep the proprietary fund’s current or future fees and charges lower than they would be otherwise.
(b) Resources provided to another party or fund:
(1) for which the other party or fund does not provide goods and services to the proprietary fund and
(2) that are recoverable through the proprietary fund’s current or future pricing policies
(c) All other transfers.

For an example of the proprietary fund financial statement of revenues, expenses, and changes in fund net position, please refer to Exhibit 8 of the Town of Carolina financial statements.

D. Major Component Units

Each major component unit should be presented separately in the reporting entity’s statement of net position and statement of activities unless separate presentation would reduce the readability of those statements. If

separate columns would reduce readability, combining statements for the major component units should be included in the basic financial statements after the fund financial statements. Presentation of major component unit information solely in the notes is no longer permitted.

GASB 103 eliminates the prior option to present major component unit information only in the footnotes.

For an example, please refer to Exhibit 3, the Statement of Activities for the Town of Carolina.

E. Budgetary Comparison Information

GASB 103 requires governments to present budgetary comparison information as RSI for the general fund and each major special revenue fund that has a legally adopted annual budget and eliminates the option to present budgetary comparison information as a basic financial statement. All other budget comparisons should be presented as supplemental information.

Budgetary Comparisons should display, on the budgetary basis:

- Original budget
- Final budget
- Variance between original and final budgets
- Actual results
- Variance between final budget and actual results

Governments must also provide explanatory notes describing significant variances as part of the RSI disclosures. For an example, please refer to the sample on page 89 of the Illustrative Financial Statement for the City of Dogwood available here. Budgetary variance information should not be discussed in the MD&A, because the MD&A will focus on the basic financial statements and the comparison information is not a part of the basic financial statements.

F. Information About Changes in Net Position in the Statistical Section

Governments that report only in business-type activities, or only in business-type and fiduciary activities, should present revenues by major source for their business-type activities in the statistical section of separately issued financial reports. The presentation should distinguish between operating, noncapital subsidy, and other nonoperating revenues and expenses.

Authoritative reference: GASB Statement No. 103, paragraph 17.

Exhibit 1

Management's Discussion and Analysis

For the Years Ended June 30, 2026

As management of the Town of Carolina (the "Town"), we offer readers of the Town's financial statements this management discussion and analysis (MD&A). The MD&A provides a narrative overview and analysis of the financial statements of the Town for the fiscal year ended June 30, 2026, focusing on why amounts changed from the prior year. We encourage readers to consider the information presented here in conjunction with additional information furnished in this report.

If you have questions about this report or require further information, contact the Department of Finance at dof@Carolina.gov or 919-XXX-XXXX.

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 recent hurricanes or other natural disasters or uses of federal or other funds (such as American Rescue Plan Act (ARPA) or Opioid Settlement funds), or questions that might be posed by readers of the financial statements. The MD&A provides an objective and easily readable analysis of the government's financial activities based on currently known facts, decisions, or conditions and presents comparisons between the current year and the prior year. Governmental Accounting Standards Board Statement No. 103 (GASB 103) requires that the information presented in the MD&A be limited to the related topics discussed in five sections: (1) Overview of the Basic Financial Statements, (2) Financial Summary, (3) Detailed Analyses, (4) Significant Capital Asset and Long-Term Financing Activity, and (5) Currently Known Facts, Decisions, or Conditions. GASB 103 also stresses that the detailed analyses should explain why balances and results of operations changed rather than simply presenting the amounts or percentages by which they changed. GASB 103 emphasizes that the analysis provided in the MD&A should avoid unnecessary duplication by not repeating explanations that may be relevant to multiple sections and that "boilerplate" discussions should be avoided by presenting only the most relevant information, focused on the primary government.

Overview of the Financial Statements

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

Government-wide Financial Statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Town's finances, in a manner similar to private sector business. The government-wide financial statements include the Town's governmental activities, the business-type activities, and discretely presented component unit.

The *statement of net position* presents financial information on all the Town's assets, liabilities, and deferred inflows/outflows 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 the Town is improving or deteriorating.

The *statement of activities* presents information showing how the Town'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 for some items that will only result in cash flows in future fiscal years (e.g. uncollected taxes and earned but unused vacation leave).

Both government-wide financial statements distinguish functions of the Town 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 the Town include general government, public safety, transportation, economic & physical development, environmental protection, and cultural and recreation. The business-type activities of the Town include electric and water & sewer operations.

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

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. The Town, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds – Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources available at the end of the fiscal year. Such information may be useful in assessing a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities.*

The Town maintains six individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Emergency Telephone System Fund, and the Parking and Recreation Capital Project Fund, which are considered to be major funds. Data from the other governmental funds are combined into a single aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

Proprietary Funds – The Town 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. The Town uses enterprise funds to account for its electric and water and sewer activities.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Electric Fund, as well as for the Water & Sewer Fund. The Electric Fund and the Water & Sewer Fund are major funds of the Town.

Notes to the Financial Statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the financial statements. The Town uses notes to present information in greater detail than is possible within the financial statements themselves, explain the nature of amounts reported in the financial statements and how those amounts were determined, and report certain information that does not meet the requirements for inclusion in the financial statements (such as certain contingencies).

Other Information. In addition to the basic financial statements and accompanying notes, this report includes certain *required supplementary information*. The Town presents budgetary comparison schedules for the General Fund, the Economic Development Fund (consolidated into the General Fund), and the Emergency Telephone System Fund, as well as the Town's progress in funding its obligations to provide pension and OPEB benefits to its employees.

The combining statements referred to earlier in connection with nonmajor governmental funds are presented immediately following the required supplementary information on budgetary comparisons, and pensions and OPEB.

Financial Summary and Detailed Analysis

Note to preparer: GASB 103 states that the MD&A should discuss the current-year balances and results of operations in comparison with the prior year, with emphasis on the current year. This analysis should be fact based and should discuss the activities that have had either a significant positive impact or a significant negative impact on the government's balances and results of operations in comparison with the prior year. The analysis should assist users in understanding why balances and results of operations reported in the current year's financial statements changed from the prior year rather than simply presenting the amounts or percentages by which they changed. *The use of charts, graphs, and tables is encouraged to enhance the understandability of the information*.

Net position. As noted earlier, over time net position may serve as a useful indicator of a government's financial position. The Town's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by $14.2 million at the close of the most recent fiscal year, an increase of $2.1 million.

Town of Carolina's Net Position

Figure 1

	Governmental Activities		Business-Type Activities		Total	
	2026	**2025**	**2026**	**2025**	**2026**	**2025**
Current and other assets	$921,706	$801,059	$2,465,657	$2,941,660	$3,387,363	$3,742,719
Capital assets	4,100,098	3,811,760	13,585,968	11,175,003	17,686,066	14,986,763
Deferred outflows of resources	406,004	351,038	408,793	250,000	814,797	601,038
Total assets and deferred outflows of resources	5,427,808	4,963,857	16,460,418	14,366,663	21,888,226	19,330,520
Long-term liabilities outstanding	1,788,390	1,400,918	4,715,051	4,934,133	6,503,441	6,335,051
Other liabilities	231,689	148,751	1,129,087	627,652	1,360,776	776,403
Deferred inflows of resources	191,085	31,625	59,131	64,151	$250,216	$95,776
Total liabilities and deferred inflows of resources	2,211,164	1,581,294	5,903,269	5,625,936	8,114,433	7,207,230
Net position:						
Net investment in capital assets	4,091,052	3,679,020	10,674,717	7,894,789	14,765,769	11,573,809
Restricted	226,141	206,482	109,725	109,725	$335,866	$316,207
Unrestricted	(694,546)	(502,939)	(227,193)	737,040	(921,739)	234,101
Total net position	$3,622,647	$3,382,563	$10,557,249	$8,741,554	$14,179,896	$12,124,117

The largest portion of the Town's net position, $14,765,769, reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), net of accumulated depreciation/amortization and less any related outstanding debt that was used to acquire those assets. The Town uses these capital assets to provide a variety of services to citizens. Accordingly, these assets are not available for future spending. Although the Town's investment in capital assets is reported net of related debt, it should be noted that the resources used to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Town's net position, $335,866, represents resources that are subject to external restrictions on how they may be used. As of the end of the current fiscal year, the Town's unrestricted net position was a deficit of $921,739, caused by approximately $2.1 million of post-employment liabilities for the Town's two pension plans ($874,148) and its other post-employment benefit plan for retiree healthcare ($1,197,320). The following sections analyze the finances of the governmental activities and business-type activities separately.

Governmental activities. Current and other assets increased by $120,647 (15.1 percent) from the prior year from unspent cash provided by a debt issuance.

Capital assets increased by $288,388 (7.6 percent) from capitalized capital outlay expenditures offset by depreciation expense and an asset impairment loss of $268,745.

Long-term liabilities, which consist of bonds, notes, leases, subscription-based IT arrangements, compensated absences and postemployment benefit obligations, increased by $387,472 (27.7 percent) from the previous year. New debt of $283,621 was issued and was accompanied by increases in pension and OPEB liabilities.

Business-type activities. Current and other assets decreased by $476,003 (16.2 percent) from cash used for capital expenditures for water & sewer. Capital assets increased by $2,410,965 from water and sewer capital outlays of $5,072,977 and an impairment loss of $2,368,954. The impairment loss was the result of a record flood and the collapse of the Cardinal Point Dam, a water and sewer capital asset. The Town received $3,650,000 from an insurance recovery and completed the rebuilding of the dam prior to fiscal year end.

Town of Carolina's Changes in Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2026	2025	2026	2025	2026	2025
Revenues:						
Program revenues:						
Charges for services	$ 76,695	$ 79,924	$ 4,378,129	$ 3,880,201	$ 4,454,824	$ 3,960,125
Operating grants and contributions	1,143,057	1,000,987	12,154	23,956	1,155,211	1,024,943
Capital grants and contributions	231,598	280,532	127,948	145,000	359,546	425,532
General revenues:						
Property taxes	968,186	827,483	-	-	968,186	827,483
Other taxes	24,127	24,546	-	-	24,127	24,546
Grants and contributions not restricted to specific programs	918,908	726,898	-	-	918,908	726,898
Other	98,492	49,588	40,218	39,326	138,710	88,914
Total revenues	3,461,063	2,989,958	4,558,449	4,088,483	8,019,512	7,078,441
Expenses:						
General government	658,660	625,216	-	-	658,660	625,216
Public safety	1,474,716	1,299,741	-	-	1,474,716	1,299,741
Transportation	515,880	505,547	-	-	515,880	505,547
Environmental protection	280,111	274,438	-	-	280,111	274,438

Economic and physical development	117,218	114,874	-	-	117,218	114,874
Cultural and recreation	78,989	77,318	-	-	78,989	77,318
Interest on long-term debt	8,818	6,019	-	-	8,818	6,019
Water and sewer	-	-	1,265,749	699,451	1,265,749	699,451
Electric	-	-	2,844,738	2,693,744	2,844,738	2,693,744
Total expenses	3,134,392	2,903,153	4,110,487	3,393,195	7,244,879	6,296,348
Transfers	(86,587)	(73,946)	86,587	73,946	-	-
Unusual or infrequent item: gain on insurance recovery	-	-	1,281,046	-	1,281,046	-
Increase in net position	240,084	12,859	1,815,595	769,234	2,055,678	782,093
Net position, beginning	3,382,563	3,425,564	8,741,654	7,994,759	12,124,217	11,407,464
Net position, ending	$3,622,647	$3,438,423	$10,557,249	$8,763,993	$14,179,896	$12,189,557

The Town's overall net position increased $2,055,678 from the prior year. The reasons for this overall increase are discussed in the following sections for governmental activities and business-type activities.

Governmental activities. Governmental activities increased the Town's net position by $240,084. During the current year Town management continued to reduce non-essential programs to a minimum and implemented cost saving strategies across Town departments. Certain non-recurring expenses were either postponed or renegotiated to maintain a healthy net position. These efforts helped to minimize expenses for the current fiscal year. As a result, the Town did not experience a significant increase in any of the functional expenditure categories of governmental activities. The $124,781 (4.3 percent) increase in total expenses was largely attributable to salary increases provided to employees during the current fiscal year.

Management believes healthy investment in the Town will result in additional revenues, adding to the Town's net position by investing in capital assets. The Town was able to fund some items in its capital spending plan with cultural, recreational, and economic development grant revenues. This effort was aided through an insurance recovery of $325,000 that was used to repair the flood damage to the Tarheel Municipal Building.

The total revenues of Town increased by $471,105 (15.8 percent) over the prior year. One of the main factors contributing to this overall increase was that the property valuation used in the calculation of the fiscal year 2026 tax levy increased by $24,970,000 which in turn caused a $139,927 increase in the net levy. In addition, there was an increase in revenues from grants and contributions of $192,010. These federal and state grants were to aid in the cleanup, recovery, and restoration related to the flood damage sustained by the Town.

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 language above and below are examples based on the Town of Carolina. Also, please note the statewide tax collection average changes annually. The management of cash, taxes and fund balance available reports provide comparative cash and investment,

fund balance available, and tax levy information for local governments in North Carolina. Information and averages presented in these reports are based on data reported by local governments to the Local Government Commission as of the date of the report. To access the report server, please visit our Financial Analysis Tools and Reports webpage. A link to generate this report is offered in the "Reports" section of the webpage. Accessing the report online allows you to generate the desired report by selecting the audit year and the unit type (either county or municipality).

Business-type activities. Business-type activities increased the Town's net position by $1,815,595, accounting for 83.97 percent of the total growth in the government's total net position. A key element of this increase was due to an unusual or infrequent item, a gain on insurance recovery of $1,281,046 due to the collapse of the Cardinal Point Dam and subsequent flooding of the wastewater aeration facility. The Town received $3,650,000 in an insurance recovery to offset an asset impairment loss of $2,368,954 resulting in an unusual or infrequent item, a gain of $1,281,046. Restoration cost of $3,800,000 has been capitalized in the Water and Sewer Fund. Overall Water and Sewer Enterprise fund expenses increased by $566,298 (80.96% over the prior year). Expenses for the cleanup, recovery and restoration related to the flood were the cause of the increase.

Cost-saving measures were able to limit the expenses of the Electric Enterprise Fund. The increase in those expenses was $150,994 (5.61 percent) over the prior year. This was largely attributable to salary increases provided to employees during the current fiscal year. The Town's adopted budget included rate increases for both the Electric and Water and Sewer Enterprise funds. The 5% increase in rates plus increases in the consumption of electric and water services resulted in an increase of $497,928 in those revenues.

Note to preparer: Include anything in the above discussion that you wish to highlight with regards to business-type activities as reasons for increases in net position.

Detailed Analysis of Governmental Funds

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

As noted earlier, the Town of Carolina uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town reports three major funds individually in the governmental fund financial statements, the General Fund, the Emergency Telephone System Fund, and the Parking and Recreation Capital Projects Fund.

General Fund. The General Fund is the chief operating fund of the Town. At the end of the fiscal year, the Town's fund balance available was $364,608, while total fund balance was $500,541. The governing body of the Town has determined that the Town should maintain an available fund balance of 5% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting cash flow needs. The Town currently has an available fund balance of 17.01% of General Fund expenditures, and total fund balance represents 24.92% of the same amount.

On June 30, 2026, governmental funds reported a combined fund balance of $558,617 with a net decrease in fund balance of $100,842.

The total fund balance of the General Fund decreased by $131,292 from greater than expected expenditures that resulted from an unexpected building heating and air conditioning system replacement and from higher Police Department expenditures for part-time employees and from overtime paid.

Like governmental activities, the General Fund also had increased property tax revenues because of the increased property valuation used for the calculation of the current year tax levy. During the current year the Town enhanced its tax collection policies and procedures. The effort focused on the collection of prior year unpaid taxes. On the accrual basis used for government-wide financial statements the taxes were previously recognized as revenue in the period they were intended

to finance. However, on the modified accrual basis used for governmental fund financial statements property tax revenues must be available to be recognized as revenue. The unpaid taxes of prior years only become available when they are actually collected. The enhanced collection efforts in the current year resulted in the collection and recognition of revenue of approximately $29,000.

The Parking and Recreation Capital Projects Fund neared completion of a parking deck project with a $200,000 grant and capital expenditure of $590,000.

Note to preparer: GASB 103 requires a discussion of significant events for each major governmental fund.

Note to preparer: Budgetary highlights and budget analysis are in Required Supplementary Information per GASB 103.

Detailed Analysis of Enterprise Funds.

The Town reports two enterprise funds in the proprietary fund financial statements, the Electric Fund and the Water and Sewer Fund, both major. The Town's enterprise funds provide the same type of information found in the government-wide statements but in more detail.
Unrestricted net position for the Water and Sewer Fund at the end of the fiscal year was a deficit of $245,557. The total change in net position for the Water and Sewer Fund was an increase of $1,831,714. The change in net position in the Water and Sewer Fund was the result of a gain from insurance proceeds as a result of the collapse in the Cardinal Point Dam and subsequent damage to the wastewater aerating facility.

Unrestricted net position of the Electric Fund was $18,064. The total change in net position for the Electric Fund was a decrease of $16,419. The change in net position was the result of an operating loss of $11,661 caused by higher than anticipated costs of electric power purchases.

Significant Capital Asset and Long-term Financing Activity

Note to Preparer: GASB 34 ¶11.f. 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. The Town's capital assets for its governmental and business–type activities as of June 30, 2026, totaled $18,049,559 (net of accumulated depreciation), an increase of 20.68 percent over the prior year. These assets include buildings, infrastructure, land, machinery and equipment, park facilities, vehicles and right to use assets for leases and IT subscriptions.

Note to preparer: List major activities, including demolitions or impairments. The following is an example based on the Town of Carolina.

Major capital asset events during the year include the following:

<u>Governmental Activities</u>

- Restoration costs of $395,240 for flood damage repairs to the municipal building were capitalized.
- $590,000 was added to construction in progress for additional amounts spent on the parking deck and various recreational facilities.

Business-type Activities

- Restoration costs of $3,925,364 for flood damage repairs to the wastewater aerating facility were capitalized.
- $1,147,613 was added to construction in progress for additional amounts spent on water and sewer treatment facilities.

Town of Carolina's Capital Assets (net of depreciation/amortization)
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2026	2025	2026	2025	2026	2025
Land	$176,770	$164,770	$615,900	$615,900	$792,670	$780,670
Buildings and system	1,494,084	1,389,612	9,587,236	8,264,446	11,081,320	9,654,058
Improvements other than buildings	163,033	185,436	-	-	163,033	185,436
Substations, lines, and related equipment	-	-	537,219	476,088	537,219	476,088
Equipment and furniture	284,529	277,915	187,449	210,065	471,978	487,980
Infrastructure	1,401,959	1,456,811	-	-	1,401,959	1,456,811
Vehicles and motorized equipment	132,181	162,537	175,463	253,557	307,644	416,094
Computer Software	4,755	4,880	-	-	4,755	4,880
Computer equipment	3,769	6,668	2,361	13,629	6,130	20,297
Right to use assets:						
Leases	58,708	36,574	28,291	37,722	86,999	74,296
IT Subscriptions	50,803	23,557	-	-	50,803	23,557
Construction in progress	693,000	103,000	2,452,049	1,304,436	3,145,049	1,407,436
Total	$4,463,591	$3,811,760	$13,585,968	$11,175,843	$18,049,559	$14,511,515

Both leases and software subscriptions (SBITA) are intangible, right to use assets. The Town does not own these assets but rather has the right to use them in operations as specified in their respective contracts. When entering into a lease or SBITA contract, a liability is also recognized, which is included in the long-term financings' discussion below.

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

Long-term financing. As of June 30, 2026, the Town had total long-term financing liabilities of $6,597,106, composed of installment financings, general obligation bonds, revenue bonds, lease liabilities, subscription liabilities, post-employment healthcare liabilities, pension liabilities, and compensated absences liabilities. The Town had total

outstanding bonded debt of $3,925,537. Of this, $3,018,614 is debt backed by the full faith and credit of the Town. Changes in long-term financing liabilities are as follows:

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2026	**2025**	**2026**	**2025**	**2026**	**2025**
Direct placement installment financing	$200,000	$ -	$ -	$ -	$200,000	$ -
General obligation bonds	60,000	70,000	2,958,614	3,288,713	3,018,614	3,358,713
Revenue bonds	-	-	906,923	936,549	906,923	936,549
Leases	61,906	39,183	28,839	38,077	90,745	77,260
IT subscription liabilities	50,633	23,557	-	-	50,633	23,557
Total	$372,539	$32,740	$3,894,376	$4,263,339	$4,266,915	$4,396,079

The Town's total long-term financing liabilities increased by $129,164 or 2.9 percent from the prior year. Key factors in the increase were the issuance of $200,000 in installment purchase financing for parking improvements at Municipal Park to be paid from the General Fund, offset by principal payments of $396,735.

The Town also issued a bond anticipation note (BAN) of $675,000 for Water and Sewer improvements. While a short-term liability (amount is due November 23, 2027), it was issued with the intent to issue long-term debt of $750,000 during the next fiscal year to provide resources to pay off the BAN and to provide some additional resources for water and sewer projects.

For the 10th consecutive year, the Town maintained its Aa1 bond rating from Moody's Investors Service, and its AA+ rating from both Standard and Poor's Financial Services and Fitch Ratings. This achievement is a primary factor in keeping interest costs low on the Town's outstanding debt.

North Carolina general statutes limit the amount of general obligation and installment financing 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 the Town was $10,847,306. The Town has $1,000,000 in bonds authorized but unissued at June 30, 2026.

Additional information regarding the Town's long-term financing can be found in Note III.B.6 of this report.

Currently known facts, decisions, or conditions

The Town of Carolina was aware of the following items that will impact future finances and were considered in developing the 2027 fiscal year budget.

Note to preparer: GASB 103 ¶8.e requires a description of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position (net position) or that are expected to produce significant differences from current-period results of operations (revenues, expenses, and other changes in net position). Information about any additional types of currently known facts, decisions, or conditions that are expected to have a significant effect on financial position or to produce significant differences from current-period results of operations should be provided.

Note to preparer: List items such as the number of new jobs created, the number of occupied square feet of business property, the unemployment rate and how it compares to state average, total retail sales for the unit for the year, etc. This is also an opportunity to discuss the impact of unusual events such as a major weather event or major public health and safety event. North Carolina Local Government ARPA resources may be found here.

The following are expected to have significant positive effects upon the net position of the Town:

- Low unemployment. The Town's unemployment rate of 3.9 percent is well below the State average.
- New manufacturing jobs. Management's emphasis on economic development continues to attract business. The Town added approximately 4,000 new jobs last year in the manufacturing sector with the opening of the Doohickey Factory.
- Occupancy rates on office and retail space. The Town's occupancy rates are about 90 percent for the year, which is an increase from last year and higher than the area average of 85 percent. Management expects that the occupancy rate for fiscal year 2027 will remain high.

Requests for Information

This report is designed to provide an overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, Town of Carolina, 789 Government Drive, Dogwood, NC 00000. You can also call (000)-000-0000, visit our website at: _____or send an email to _____ for more information.