

**TOWN OF ELKIN
NORTH CAROLINA**

**BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

TOWN OF ELKIN, NORTH CAROLINA

BASIC FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Elkin, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Yadkin Valley ABC Board or the Town of Elkin Tourism Development Authority. Those statements were audited by other auditors whose reports have been furnished to us and, our opinion, insofar as it relates to the amounts included for the Yadkin Valley ABC Board and the Town of Elkin Tourism Development Authority, is based solely on the reports of 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 of material misstatement. The financial statements of the Yadkin Valley ABC Board and the Town of Elkin Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers 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.

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 reports of 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 aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Elkin, North Carolina, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Elkin's basic financial statements. The combining and individual fund financial statements, budget and actual schedules, and other schedules, as well as the accompanying Schedule of Expenditures of Federal and State Awards, as required by Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 financial statements, budget and actual schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards 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 by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the reports of other auditors, the combining and individual fund financial statements, budget and actual schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 17, 2020 on our consideration of the Town of Elkin'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 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 Town of Elkin'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 Town of Elkin's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
February 17, 2020

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Management Discussion and Analysis

As management of the Town of Elkin, we offer readers of the Town of Elkin's financial statements this narrative overview and analysis of the financial activities of the Town of Elkin for the fiscal year ended June 30, 2019. We encourage readers to read the information presented here, in conjunction with additional information that we have furnished in the Town of Elkin's financial statements, which follow this narrative.

Financial Highlights

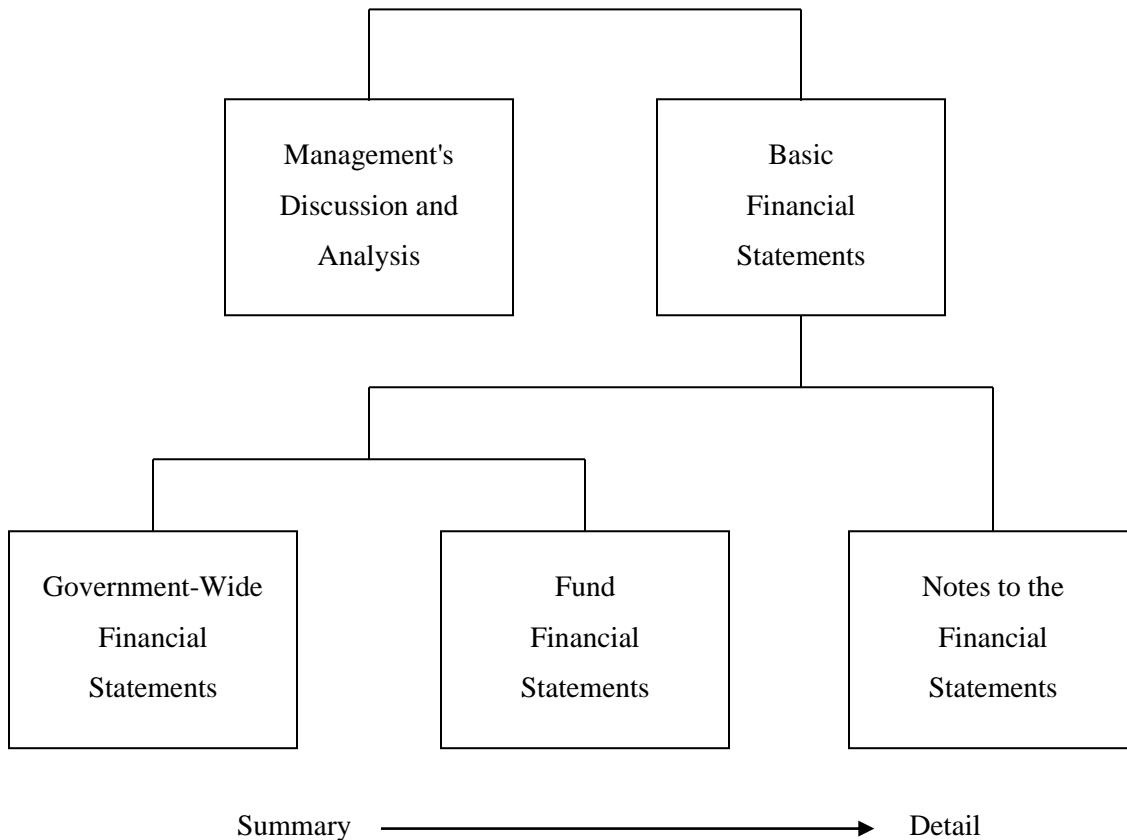
- The assets and deferred outflows of the Town of Elkin exceeded its liabilities and deferred inflows at the close of the fiscal year by \$15,110,297.
- As of the close of the current fiscal year, the Town of Elkin's governmental funds reported combined ending fund balances of \$3,060,780, with a net increase of \$30,776. Approximately 40% of this total amount, or \$1,224,031, is restricted.
- At the end of the current fiscal year, available fund balance for the General Fund was \$2,014,967, or 36%, of total General Fund expenditures and transfers out for the fiscal year.

Overview of the Financial Statements

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

Required Components of the Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits A and B) in the basic financial statements are the **government-wide financial statements**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits C through J) are **fund financial statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the fund financial statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. Following the notes is the **required supplemental information**. This section contains funding information about the Town's pension plans. After the required supplemental information, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the Town's finances, similar in format to a financial statement of a private-sector business. The government-wide statements provide short and long-term information about the Town of Elkin's financial status as a whole.

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

The government-wide statements are divided into three categories: 1) governmental activities, 2) business-type activities, and 3) component units. The governmental activities include most of the Town's basic services, such as public safety, parks and recreation, and general administration. Property taxes and federal and state grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water services offered by the Town of Elkin. The final category is the component units. Although legally separate from the Town of Elkin, the Elkin Board of Alcoholic Control is important to the Town of Elkin because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town of Elkin. The Town of Elkin Tourism Development Authority is legally separate from the Town however the Town is financially accountable for the Board by appointing its members.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Elkin, 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 Town of Elkin's budget ordinance. All of the funds of the Town of Elkin 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 Town of Elkin'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* that provides a short-term spending 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 Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Elkin adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town of Elkin to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. 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. 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. The Town of Elkin has one kind of proprietary fund - an enterprise fund. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Elkin uses an enterprise fund to account for its water activity. This fund is the same as those functions 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. The Town of Elkin has one fiduciary fund, which is an agency fund.

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 follow Exhibit J of this report.

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

Town of Elkin's Net Position

Figure 2

| | Governmental Activities | | Business-Type Activities | | Total | |
|---------------------------------------|----------------------------|---------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Assets: | | | | | | |
| Current and other assets | \$ 3,777,636 | \$ 3,494,647 | \$ 3,136,627 | \$ 2,517,600 | \$ 6,914,263 | \$ 6,012,247 |
| Capital assets, net | <u>6,787,471</u> | <u>6,830,501</u> | <u>5,140,751</u> | <u>3,731,517</u> | <u>11,928,222</u> | <u>10,562,018</u> |
| Total assets | <u>10,565,107</u> | <u>10,325,148</u> | <u>8,277,378</u> | <u>6,249,117</u> | <u>18,842,485</u> | <u>16,574,265</u> |
| Deferred Outflows of Resources | <u>581,273</u> | <u>383,429</u> | <u>-</u> | <u>-</u> | <u>581,273</u> | <u>383,429</u> |
| Liabilities: | | | | | | |
| Long-term liabilities outstanding | 1,349,486 | 1,302,648 | 2,533,440 | 1,119,706 | 3,882,926 | 2,422,354 |
| Other liabilities | <u>238,756</u> | <u>307,643</u> | <u>164,041</u> | <u>189,172</u> | <u>402,797</u> | <u>496,815</u> |
| Total liabilities | <u>1,588,242</u> | <u>1,610,291</u> | <u>2,697,481</u> | <u>1,308,878</u> | <u>4,285,723</u> | <u>2,919,169</u> |
| Deferred Inflows of Resources | <u>27,738</u> | <u>26,493</u> | <u>-</u> | <u>-</u> | <u>27,738</u> | <u>26,493</u> |
| Net Position: | | | | | | |
| Net investment in capital assets | 6,585,030 | 6,468,234 | 3,589,313 | 3,731,517 | 10,174,343 | 10,199,751 |
| Restricted | 1,224,031 | 1,484,937 | - | - | 1,224,031 | 1,484,937 |
| Unrestricted | <u>1,721,339</u> | <u>1,118,622</u> | <u>1,990,584</u> | <u>1,208,722</u> | <u>3,711,923</u> | <u>2,327,344</u> |
| Total net position | <u>\$ 9,530,400</u> | <u>\$ 9,071,793</u> | <u>\$ 5,579,897</u> | <u>\$ 4,940,239</u> | <u>\$ 15,110,297</u> | <u>\$ 14,012,032</u> |

Government-Wide Financial Analysis

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of the Town of Elkin exceeded its liabilities and deferred inflows of resources by \$15,110,297 as of June 30, 2019. The Town of Elkin's net position increased by \$1,098,265 for the fiscal year ended June 30, 2019. However, the largest portion (67%) reflects the Town's investment in capital assets (e. g., land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Elkin uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Elkin'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 the Town of Elkin's net position, \$1,224,031, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,711,923 is unrestricted.

Town of Elkin's Changes in Net Position

Figure 3

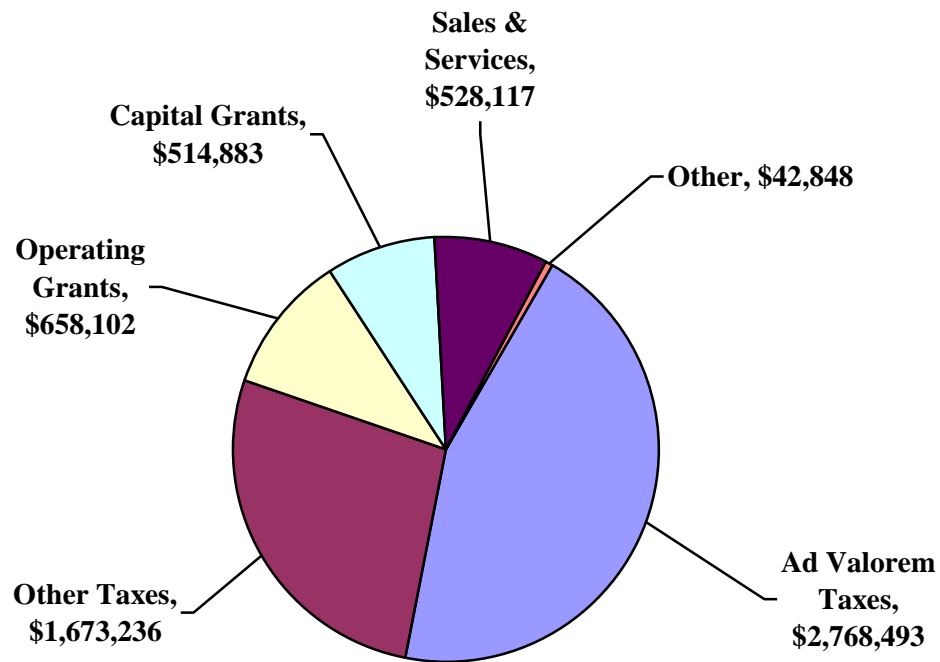
| | Governmental Activities | | Business-Type Activities | | Total | |
|--------------------------------|----------------------------|---------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 528,117 | \$ 536,619 | \$ 1,429,215 | \$ 1,181,531 | \$ 1,957,332 | \$ 1,718,150 |
| Operating grants | 658,102 | 316,332 | 446,333 | 58,537 | 1,104,435 | 374,869 |
| Capital grants | 514,883 | 554,936 | - | - | 514,883 | 554,936 |
| General revenues: | | | | | | |
| Property taxes | 2,768,493 | 2,781,886 | - | - | 2,768,493 | 2,781,886 |
| Other taxes | 1,673,236 | 1,651,013 | - | - | 1,673,236 | 1,651,013 |
| Other | 42,848 | 24,613 | 8,267 | 3,672 | 51,115 | 28,285 |
| Total revenues | <u>6,185,679</u> | <u>5,865,399</u> | <u>1,883,815</u> | <u>1,243,740</u> | <u>8,069,494</u> | <u>7,109,139</u> |
| Expenses: | | | | | | |
| General government | 1,715,412 | 1,935,049 | - | - | 1,715,412 | 1,935,049 |
| Public safety | 1,971,198 | 1,794,554 | - | - | 1,971,198 | 1,794,554 |
| Transportation | 757,474 | 788,545 | - | - | 757,474 | 788,545 |
| Environmental protection | 248,223 | 191,877 | - | - | 248,223 | 191,877 |
| Cultural and recreational | 1,026,504 | 988,171 | - | - | 1,026,504 | 988,171 |
| Interest on long-term debt | 8,261 | 11,691 | - | - | 8,261 | 11,691 |
| Water | - | - | 1,244,157 | 1,108,346 | 1,244,157 | 1,108,346 |
| Total expenses | <u>5,727,072</u> | <u>5,709,887</u> | <u>1,244,157</u> | <u>1,108,346</u> | <u>6,971,229</u> | <u>6,818,233</u> |
| Change in net position | <u>458,607</u> | <u>155,512</u> | <u>639,658</u> | <u>135,394</u> | <u>1,098,265</u> | <u>290,906</u> |
| Net Position: | | | | | | |
| Beginning of year - July 1 | 9,071,793 | 8,930,376 | 4,940,239 | 4,804,845 | 14,012,032 | 13,735,221 |
| Restatement | - | (14,095) | - | - | - | (14,095) |
| Beginning of year, as restated | <u>9,071,793</u> | <u>8,916,281</u> | <u>4,940,239</u> | <u>4,804,845</u> | <u>14,012,032</u> | <u>13,721,126</u> |
| End of year - June 30 | <u>\$ 9,530,400</u> | <u>\$ 9,071,793</u> | <u>\$ 5,579,897</u> | <u>\$ 4,940,239</u> | <u>\$ 15,110,297</u> | <u>\$ 14,012,032</u> |

Governmental Activities

Governmental activities increased the Town of Elkin's net position by \$458,607. The primary reason behind this increase is due to an increase in operating grants and contributions.

During the year, the Town's governmental expenses were \$5,835,259, a decrease of \$58,771 from the prior year.

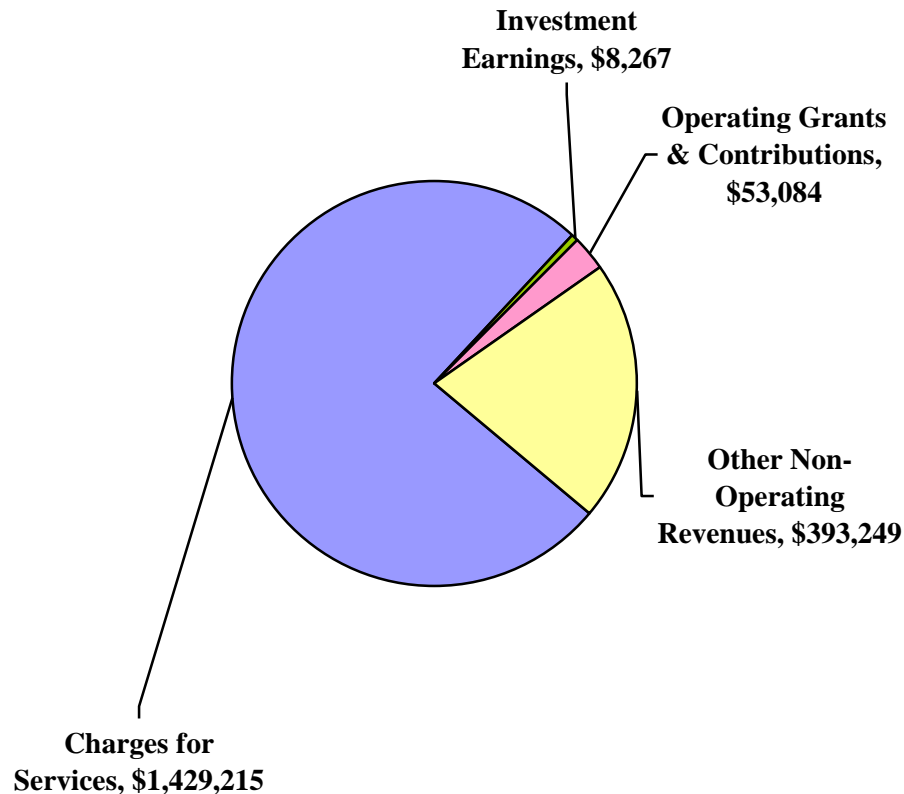
Revenues by Source for Governmental-Type Activities



Business-Type Activities

Business-type activities increased the Town of Elkin's net position by \$639,658. Charges for services in the Water Fund increased by \$247,684, or 21%, as compared to the preceding year. Most of the increase in net position is due to continued increases in volume of water sold and repayment of long-term debt reimbursement from YVSA.

Revenues by Source for Business-Type Activities



Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Elkin's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Elkin's financing requirements. Specifically, unreserved fund balance 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 the Town of Elkin. At the end of the current fiscal year, Town of Elkin's fund balance available in the General Fund was \$2,014,967, while total fund balance reached \$2,735,180. The Town currently has an available fund balance of 36% of General Fund expenditures and transfers out, while total fund balance represents 49% of the same amount.

General Fund Budgetary Highlights. During the fiscal year, the Town revised the budget at the end of the fiscal year. 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 expenditures by approximately \$306,080 (6%). Amendments were necessary due to conservatism used in compiling the original budget.

Proprietary Funds. The Town of Elkin's proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water Fund at the end of the fiscal year amounted to \$1,990,584. This represents an increase of \$781,862 from the prior year.

Capital Asset and Debt Administration

Capital Assets. The Town of Elkin's investment in capital assets for its governmental and business-type activities as of June 30, 2019 totals \$11,928,222 (net of accumulated depreciation). These assets include buildings, construction in progress, other improvements, land and land improvements, machinery and equipment, and vehicles.

Major capital asset transactions during the year include the following additions. There were routine disposals of fully depreciated buildings and improvements, land improvements, equipment, and vehicles in the amount of \$289,529.

- Fire Department equipment
- Recreation fitness equipment
- Tennis court resurfacing

Town of Elkin's Capital Assets (net of depreciation)

Figure 4

| | Governmental Activities | | Business-Type Activities | | Total | |
|-------------------------------|----------------------------|---------------------|-----------------------------|---------------------|----------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Land | \$ 1,415,222 | \$ 1,415,222 | \$ 128,359 | \$ 128,359 | \$ 1,543,581 | \$ 1,543,581 |
| Construction in progress | 1,064,082 | 674,206 | 1,824,538 | 275,538 | 2,888,620 | 949,744 |
| Buildings and improvements | 5,991,642 | 5,987,776 | 6,964,439 | 6,882,800 | 12,956,081 | 12,870,576 |
| Land improvements | 2,547,107 | 2,519,107 | - | - | 2,547,107 | 2,519,107 |
| Equipment | 3,034,163 | 3,061,163 | - | - | 3,034,163 | 3,061,163 |
| Vehicles | 2,263,727 | 2,263,584 | - | - | 2,263,727 | 2,263,584 |
| Less accumulated depreciation | (9,528,472) | (9,090,557) | (3,776,585) | (3,555,180) | (13,305,057) | (12,645,737) |
| Total | <u>\$ 6,787,471</u> | <u>\$ 6,830,501</u> | <u>\$ 5,140,751</u> | <u>\$ 3,731,517</u> | <u>\$ 11,928,222</u> | <u>\$ 10,562,018</u> |

Town of Elkin's Outstanding Debt

Figure 5

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------|------------------------------------|-------------|-------------------------------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Installment purchases | \$ 202,441 | \$ 362,267 | \$ 2,513,177 | \$ 1,099,234 | \$ 2,715,618 | \$ 1,461,501 |

The Town of Elkin's total long-term obligations increased by \$1,254,117 (86%) during the past fiscal year.

North Carolina General Statutes limit 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 the Town of Elkin is \$40,875,944.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities. Total General Fund expenditures for fiscal year 2020 are projected at \$5,338,446, which is a decrease of \$58,458, or 0.1%, over the fiscal year 2019 original budget.

Business-Type Activities. Total Water Fund expenditures for fiscal year 2020 are projected at \$1,569,476, which is an increase of \$306,400, or 19.5%, over the fiscal year 2019 original budget.

Requests for Information

This financial report is designed to provide a general overview of the Town of Elkin's finances and to demonstrate the Town's accountability for the money it receives. Questions concerning any information provided in this report, or requests for additional information, should be addressed to the Town Manager, P.O. Box 857, Elkin, North Carolina 28621 or by calling (336) 258-8900.

TOWN OF ELKIN, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2019

| | Primary Government | | | Component Units | |
|--|-------------------------|--------------------------|---------------|-------------------------|-------------------|
| | Governmental Activities | Business-Type Activities | Total | Yadkin Valley ABC Board | Town of Elkin TDA |
| Assets: | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | \$ 2,583,177 | \$ 1,698,757 | \$ 4,281,934 | \$ 454,116 | \$ 76,453 |
| Taxes receivable, net | 157,102 | - | 157,102 | - | - |
| Accounts receivable, net | 99,366 | 197,786 | 297,152 | - | 23,634 |
| Due from other governments | 686,934 | 53,651 | 740,585 | - | - |
| Inventories | - | 148,126 | 148,126 | 113,392 | - |
| Prepaid items | - | 25,950 | 25,950 | 1,756 | - |
| Restricted cash and cash equivalents | 1,057 | 50,618 | 51,675 | - | - |
| Total current assets | 3,527,636 | 2,174,888 | 5,702,524 | 569,264 | 100,087 |
| Non-current assets: | | | | | |
| Note receivable | 250,000 | 961,739 | 1,211,739 | - | - |
| Capital assets: | | | | | |
| Land, non-depreciable improvements, and construction in progress | 2,479,304 | 1,952,897 | 4,432,201 | - | - |
| Other capital assets, net of depreciation | 4,308,167 | 3,187,854 | 7,496,021 | 1,260,805 | - |
| Total capital assets | 6,787,471 | 5,140,751 | 11,928,222 | 1,260,805 | - |
| Total assets | 10,565,107 | 8,277,378 | 18,842,485 | 1,830,069 | 100,087 |
| Deferred Outflows of Resources: | | | | | |
| Pension deferrals | 569,153 | - | 569,153 | 31,780 | - |
| OPEB deferrals | 12,120 | - | 12,120 | - | - |
| Total deferred outflows of resources | 581,273 | - | 581,273 | 31,780 | - |
| Liabilities: | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued liabilities | 238,756 | 107,693 | 346,449 | 158,623 | 16,699 |
| Prepaid fees | - | 5,730 | 5,730 | - | - |
| Long-term liabilities: | | | | | |
| Total pension liability (LEOSSA) | 248,755 | - | 248,755 | - | - |
| Net pension obligation (LGRS) | 689,877 | - | 689,877 | 30,603 | - |
| Total OPEB liability | 39,871 | - | 39,871 | - | - |
| Due within one year | 150,177 | 174,305 | 324,482 | 69,473 | - |
| Due in more than one year | 220,806 | 2,359,135 | 2,579,941 | 683,015 | - |
| Liabilities to be paid from restricted assets: | | | | | |
| Customer deposits | - | 50,618 | 50,618 | - | - |
| Total liabilities | 1,588,242 | 2,697,481 | 4,285,723 | 941,714 | 16,699 |
| Deferred Inflows of Resources: | | | | | |
| Prepaid taxes | 1,456 | - | 1,456 | - | - |
| Pension deferrals | 23,661 | - | 23,661 | 3,791 | - |
| OPEB deferrals | 2,621 | - | 2,621 | - | - |
| Total deferred inflows of resources | 27,738 | - | 27,738 | 3,791 | - |
| Net Position: | | | | | |
| Net investment in capital assets | 6,585,030 | 3,589,313 | 10,174,343 | 508,317 | - |
| Restricted for: | | | | | |
| Stabilization by state statute | 1,045,727 | - | 1,045,727 | - | 23,634 |
| Transportation | 1,057 | - | 1,057 | - | - |
| Public safety | 15,194 | - | 15,194 | - | - |
| General government | 101,092 | - | 101,092 | - | - |
| Cultural and recreational | 44,437 | - | 44,437 | - | - |
| Economic and physical development | 16,524 | - | 16,524 | - | - |
| Working capital | - | - | - | 59,219 | - |
| Unrestricted | 1,721,339 | 1,990,584 | 3,711,923 | 348,808 | 59,754 |
| Total net position | \$ 9,530,400 | \$ 5,579,897 | \$ 15,110,297 | \$ 916,344 | \$ 83,388 |

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

TOWN OF ELKIN, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

| | | Program Revenues | | |
|----------------------------------|---------------------|---------------------|---------------------|-------------------|
| | | Charges for | Operating | Capital |
| | Expenses | Services | Grants and | Grants and |
| | | | Contributions | Contributions |
| Functions/Programs: | | | | |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General government | \$ 1,715,412 | \$ 5,830 | \$ 2,667 | \$ - |
| Public safety | 1,971,198 | 1,097 | 399,971 | - |
| Transportation | 757,474 | - | 204,994 | 514,883 |
| Environmental protection | 248,223 | 282,649 | - | - |
| Cultural and recreational | 1,026,504 | 238,541 | 50,470 | - |
| Interest on long-term debt | 8,261 | - | - | - |
| Total governmental activities | <u>5,727,072</u> | <u>528,117</u> | <u>658,102</u> | <u>514,883</u> |
| Business-Type Activities: | | | | |
| Water | <u>1,244,157</u> | <u>1,429,215</u> | <u>446,333</u> | <u>-</u> |
| Total primary government | <u>\$ 6,971,229</u> | <u>\$ 1,957,332</u> | <u>\$ 1,104,435</u> | <u>\$ 514,883</u> |
| Component Units: | | | | |
| Yadkin Valley ABC Board | \$ 1,832,778 | \$ 1,999,411 | \$ - | \$ - |
| Town of Elkin TDA | 177,407 | - | - | - |
| Total component units | <u>\$ 2,010,185</u> | <u>\$ 1,999,411</u> | <u>\$ -</u> | <u>\$ -</u> |

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

TOWN OF ELKIN, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

| | Net (Expense) Revenue and Changes in Net Position | | | | |
|--|---|--------------------------|----------------------|-------------------------|-------------------|
| | Primary Government | | Component Units | | |
| | Governmental Activities | Business-Type Activities | Total | Yadkin Valley ABC Board | Town of Elkin TDA |
| Functions/Programs: | | | | | |
| Primary Government: | | | | | |
| Governmental Activities: | | | | | |
| General government | \$ (1,706,915) | \$ - | \$ (1,706,915) | \$ - | \$ - |
| Public safety | (1,570,130) | - | (1,570,130) | - | - |
| Transportation | (37,597) | - | (37,597) | - | - |
| Environmental protection | 34,426 | - | 34,426 | - | - |
| Cultural and recreational | (737,493) | - | (737,493) | - | - |
| Interest on long-term debt | (8,261) | - | (8,261) | - | - |
| Total governmental activities | <u>(4,025,970)</u> | <u>-</u> | <u>(4,025,970)</u> | <u>-</u> | <u>-</u> |
| Business-Type Activities: | | | | | |
| Water | <u>-</u> | <u>631,391</u> | <u>631,391</u> | <u>-</u> | <u>-</u> |
| Total primary government | <u>(4,025,970)</u> | <u>631,391</u> | <u>(3,394,579)</u> | <u>-</u> | <u>-</u> |
| Component Units: | | | | | |
| Yadkin Valley ABC Board | | | | 166,633 | - |
| Town of Elkin TDA | | | | <u>-</u> | <u>(177,407)</u> |
| Total component units | | | | <u>166,633</u> | <u>(177,407)</u> |
| General Revenues: | | | | | |
| Taxes: | | | | | |
| Property taxes, levied for general purpose | 2,768,493 | - | 2,768,493 | - | - |
| Local option sales tax | 1,214,389 | - | 1,214,389 | - | - |
| Franchise tax | 428,134 | - | 428,134 | - | - |
| Other taxes | 30,713 | - | 30,713 | - | - |
| Unrestricted investment earnings | 42,848 | 8,267 | 51,115 | 2,999 | - |
| Occupancy tax | - | - | - | - | 159,109 |
| Miscellaneous | <u>-</u> | <u>-</u> | <u>-</u> | <u>23</u> | <u>-</u> |
| Total general revenues | <u>4,484,577</u> | <u>8,267</u> | <u>4,492,844</u> | <u>3,022</u> | <u>159,109</u> |
| Change in net position | 458,607 | 639,658 | 1,098,265 | 169,655 | (18,298) |
| Net Position: | | | | | |
| Beginning of year - July 1 | <u>9,071,793</u> | <u>4,940,239</u> | <u>14,012,032</u> | <u>746,689</u> | <u>101,686</u> |
| Ending of year - June 30 | <u>\$ 9,530,400</u> | <u>\$ 5,579,897</u> | <u>\$ 15,110,297</u> | <u>\$ 916,344</u> | <u>\$ 83,388</u> |

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

TOWN OF ELKIN, NORTH CAROLINA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2019

| | General Fund | Airport Capital Projects Ordinance Fund | Other Governmental Funds | Total Governmental Funds |
|---|---------------------|---|--------------------------------|--------------------------------|
| Assets: | | | | |
| Cash and cash equivalents | \$ 2,563,198 | \$ - | \$ 19,979 | \$ 2,583,177 |
| Cash and cash equivalents - restricted | 1,057 | - | - | 1,057 |
| Taxes receivable, net | 157,102 | - | - | 157,102 |
| Accounts receivable, net | 99,366 | - | - | 99,366 |
| Note receivable | 250,000 | - | - | 250,000 |
| Due from other governments | 667,480 | 19,454 | - | 686,934 |
| Due from other funds | 3,455 | 104,897 | 220,617 | 328,969 |
| Total assets | <u>\$ 3,741,658</u> | <u>\$ 124,351</u> | <u>\$ 240,596</u> | <u>\$ 4,106,605</u> |
| Liabilities, Deferred Inflows of Resources, and Fund Balances: | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued liabilities | \$ 222,318 | \$ 16,438 | \$ - | \$ 238,756 |
| Due to other funds | 325,514 | - | 3,455 | 328,969 |
| Total liabilities | <u>547,832</u> | <u>16,438</u> | <u>3,455</u> | <u>567,725</u> |
| Deferred Inflows of Resources: | | | | |
| Prepaid taxes | 1,456 | - | - | 1,456 |
| Unavailable revenues | 300,088 | 19,454 | - | 319,542 |
| Property taxes receivable | 157,102 | - | - | 157,102 |
| Total deferred inflows of resources | <u>458,646</u> | <u>19,454</u> | <u>-</u> | <u>478,100</u> |
| Fund Balances: | | | | |
| Restricted for: | | | | |
| Stabilization by state statute | 720,213 | 104,897 | 220,617 | 1,045,727 |
| Transportation | 1,057 | - | - | 1,057 |
| Cultural and recreational | 44,437 | - | - | 44,437 |
| General government | 101,092 | - | - | 101,092 |
| Public safety | 15,194 | - | - | 15,194 |
| Economic and physical development | - | - | 16,524 | 16,524 |
| Unassigned | 1,853,187 | (16,438) | - | 1,836,749 |
| Total fund balances | <u>2,735,180</u> | <u>88,459</u> | <u>237,141</u> | <u>3,060,780</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 3,741,658</u> | <u>\$ 124,351</u> | <u>\$ 240,596</u> | |

Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different because:

| | |
|--|---------------------|
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 6,787,471 |
| Net pension obligation - LGERS | (689,877) |
| Total pension liability - LEOSSA | (248,755) |
| Total OPEB liability | (39,871) |
| Deferred outflows of resources related to pensions | 569,153 |
| Deferred outflows of resources related to OPEB | 12,120 |
| Deferred inflows of resources for taxes receivable and unavailable revenues | 476,644 |
| Deferred inflows of resources related to pensions | (23,661) |
| Deferred inflows of resources related to OPEB | (2,621) |
| Some liabilities are not due and payable in the current period and, therefore, are not reported in the funds. | (370,983) |
| Net position of governmental activities | <u>\$ 9,530,400</u> |

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

TOWN OF ELKIN, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

| | General Fund | Airport Capital Projects Ordinance Fund | Other Governmental Funds | Total |
|--|---------------------|---|--------------------------------|---------------------|
| Revenues: | | | | |
| Ad valorem taxes | \$ 2,755,075 | \$ - | \$ 13,316 | \$ 2,768,391 |
| Other taxes and licenses | 9,807 | - | - | 9,807 |
| Unrestricted intergovernmental | 1,663,429 | - | - | 1,663,429 |
| Restricted intergovernmental | 391,503 | 327,682 | - | 719,185 |
| Sales and services | 521,190 | - | - | 521,190 |
| Permits and fees | 6,927 | - | - | 6,927 |
| Investment earnings | 42,848 | - | - | 42,848 |
| Miscellaneous | 134,258 | - | - | 134,258 |
| Total revenues | <u>5,525,037</u> | <u>327,682</u> | <u>13,316</u> | <u>5,866,035</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,408,149 | - | - | 1,408,149 |
| Public safety | 1,933,696 | - | - | 1,933,696 |
| Transportation | 760,063 | - | - | 760,063 |
| Environmental protection | 239,183 | - | 9,040 | 248,223 |
| Cultural and recreational | 977,165 | - | - | 977,165 |
| Debt service: | | | | |
| Principal | 159,826 | - | - | 159,826 |
| Interest and other charges | 8,261 | - | - | 8,261 |
| Capital outlay | - | 339,876 | - | 339,876 |
| Total expenditures | <u>5,486,343</u> | <u>339,876</u> | <u>9,040</u> | <u>5,835,259</u> |
| Revenues over (under) expenditures | <u>38,694</u> | <u>(12,194)</u> | <u>4,276</u> | <u>30,776</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers from General Fund | - | 100,000 | - | 100,000 |
| Transfer to capital project funds | (100,000) | - | - | (100,000) |
| Total other financing sources (uses) | <u>(100,000)</u> | <u>100,000</u> | <u>-</u> | <u>-</u> |
| Net change in fund balances | (61,306) | 87,806 | 4,276 | 30,776 |
| Fund Balances: | | | | |
| Beginning of year - July 1 | <u>2,796,486</u> | <u>653</u> | <u>232,865</u> | <u>3,030,004</u> |
| End of year - June 30 | <u>\$ 2,735,180</u> | <u>\$ 88,459</u> | <u>\$ 237,141</u> | <u>\$ 3,060,780</u> |

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

TOWN OF ELKIN, NORTH CAROLINA**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different because:

| | |
|---|-------------------|
| Net changes in fund balances - total governmental funds | \$ 30,776 |
| Governmental funds report capital outlay 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 capital outlays exceeded depreciation in the current period. | |
| Capital outlay | 680,464 |
| Depreciation | (723,494) |
| Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues/expenditures in the funds. | 319,644 |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. This is the net effect of these differences in the treatment of long-term debt and related items. | |
| Principal repayments | 159,826 |
| Some expenses reported in the Statement of Activities do not require the use of financial resources and, therefore, are not reported as expenditures in governmental funds. | |
| Compensated absences | 19,391 |
| Pension expense - LEOSA | (2,122) |
| Pension expense - LGERS | (35,662) |
| OPEB plan expense | 9,784 |
| Total changes in net position of governmental activities | <u>\$ 458,607</u> |

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

TOWN OF ELKIN, NORTH CAROLINA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

| | Budgeted Amounts | | | Variance with Final Budget Over/Under |
|--|------------------|------------------|---------------------|---|
| | Original | Final | Actual | |
| Revenues: | | | | |
| Ad valorem taxes | \$ 2,726,874 | \$ 2,726,874 | \$ 2,755,075 | \$ 28,201 |
| Other taxes and licenses | 7,285 | 7,285 | 9,807 | 2,522 |
| Unrestricted intergovernmental | 1,729,175 | 1,729,175 | 1,663,429 | (65,746) |
| Restricted intergovernmental | 172,370 | 235,370 | 391,503 | 156,133 |
| Sales and services | 510,480 | 510,480 | 521,190 | 10,710 |
| Permits and fees | 4,792 | 4,792 | 6,927 | 2,135 |
| Investment earnings | 43,343 | 43,343 | 42,848 | (495) |
| Miscellaneous | 67,983 | 95,483 | 134,258 | 38,775 |
| Total revenues | <u>5,262,302</u> | <u>5,352,802</u> | <u>5,525,037</u> | <u>172,235</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,355,547 | 1,477,397 | 1,408,149 | 69,248 |
| Public safety | 1,916,358 | 1,900,358 | 1,933,696 | (33,338) |
| Transportation | 831,060 | 853,860 | 760,063 | 93,797 |
| Environmental protection | 253,164 | 253,164 | 239,183 | 13,981 |
| Cultural and recreational | 829,629 | 1,007,059 | 977,165 | 29,894 |
| Debt service: | | | | |
| Principal | 159,825 | 159,825 | 159,826 | (1) |
| Interest and other charges | 8,261 | 8,261 | 8,261 | - |
| Total expenditures | <u>5,353,844</u> | <u>5,659,924</u> | <u>5,486,343</u> | <u>173,581</u> |
| Revenues over (under) expenditures | <u>(91,542)</u> | <u>(307,122)</u> | <u>38,694</u> | <u>345,816</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers to capital projects | (42,860) | (142,860) | (100,000) | 42,860 |
| Appropriated fund balance | <u>134,402</u> | <u>449,982</u> | <u>-</u> | <u>(449,982)</u> |
| Total other financing sources (uses) | <u>91,542</u> | <u>307,122</u> | <u>(100,000)</u> | <u>(407,122)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>(61,306)</u> | <u>\$ (61,306)</u> |
| Fund Balance: | | | | |
| Beginning of year - July 1 | | | <u>2,796,486</u> | |
| End of year - June 30 | | | <u>\$ 2,735,180</u> | |

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

TOWN OF ELKIN, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUND
JUNE 30, 2019

| | <u>Enterprise Fund</u> <u>Water Fund</u> |
|--|---|
| Assets: | |
| Current assets: | |
| Cash and cash equivalents | \$ 1,698,757 |
| Accounts receivable trade, net | 197,786 |
| Due from other governments | 53,651 |
| Prepaid expenses | 25,950 |
| Inventories | 148,126 |
| Restricted cash and cash equivalents | <u>50,618</u> |
| Total current assets | <u>2,174,888</u> |
| Non-current assets: | |
| Note receivable | <u>961,739</u> |
| Capital assets: | |
| Land, non-depreciable improvements, and construction in progress | 1,952,897 |
| Other capital assets, net of depreciation | <u>3,187,854</u> |
| Total capital assets, net | <u>5,140,751</u> |
| Total assets | <u>8,277,378</u> |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | 107,693 |
| Installment purchase notes | 164,173 |
| Compensated absences | 10,132 |
| Prepaid fees | 5,730 |
| Liabilities to be paid from restricted assets: | |
| Customer deposits | <u>50,618</u> |
| Total current liabilities | <u>338,346</u> |
| Non-current liabilities: | |
| Installment purchase notes | 2,349,004 |
| Compensated absences | <u>10,131</u> |
| Total non-current liabilities | <u>2,359,135</u> |
| Total liabilities | <u>2,697,481</u> |
| Net Position: | |
| Net investment in capital assets | 3,589,313 |
| Unrestricted | <u>1,990,584</u> |
| Total net position | <u>\$ 5,579,897</u> |

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

TOWN OF ELKIN, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019

| | Enterprise Fund |
|---|----------------------------|
| | Water Fund |
| Operating Revenues: | |
| Charges for sales and services | \$ 1,429,215 |
| Other operating revenues | 53,084 |
| Total operating revenues | <u>1,482,299</u> |
| Operating Expenses: | |
| Non-departmental | 67,345 |
| Administration | 69,404 |
| Water operations | 849,985 |
| Depreciation | 225,355 |
| Total operating expenses | <u>1,212,089</u> |
| Operating income (loss) | <u>270,210</u> |
| Non-Operating Revenues (Expenses): | |
| Investment earnings | 8,267 |
| Interest expense | (32,068) |
| Other non-operating revenue | 393,249 |
| Total non-operating revenues (expenses) | <u>369,448</u> |
| Change in net position | 639,658 |
| Net Position: | |
| Beginning of year - July 1 | <u>4,940,239</u> |
| End of year - June 30 | <u>\$ 5,579,897</u> |

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

TOWN OF ELKIN, NORTH CAROLINA

STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2019

| | <u>Enterprise Fund</u> <u>Water Fund</u> |
|---|---|
| Cash Flows from Operating Activities: | |
| Cash received from customers | \$ 1,389,192 |
| Cash paid for goods and services | (841,567) |
| Cash paid to or on behalf of employees for services | (244,828) |
| Customer deposits received (paid) | (600) |
| Other operating revenues | 190,579 |
| Net cash provided (used) by operating activities | <u>492,776</u> |
| Cash Flows from Non-Capital Financing Activities: | |
| Advances (to) from other funds | <u>(72,270)</u> |
| Total cash flows provided (used) from non-capital financing activities | <u>(72,270)</u> |
| Cash Flows from Capital and Related Financing Activities: | |
| Acquisition and construction of capital assets | (1,634,589) |
| Long-term debt reimbursement from YVSA | 393,249 |
| Proceeds from installment loan | 1,551,438 |
| Principal payments on long-term debt | (137,495) |
| Interest payments on long-term debt | (32,068) |
| Net cash provided (used) by capital and related financing activities | <u>140,535</u> |
| Cash Flows from Investing Activities: | |
| Interest | <u>8,267</u> |
| Net cash provided (used) by investing activities | <u>8,267</u> |
| Net increase (decrease) in cash and cash equivalents | 569,308 |
| Cash and Cash Equivalents: | |
| Beginning of year - July 1 | <u>1,180,067</u> |
| End of year - June 30 | <u>\$ 1,749,375</u> |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | |
| Operating income (loss) | \$ 270,210 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | |
| Depreciation and amortization | 225,355 |
| Changes in assets and liabilities: | |
| (Increase) decrease in accounts receivable | (78,820) |
| (Increase) decrease in notes receivable | 137,495 |
| (Increase) decrease in prepaid expenses | (25,950) |
| (Increase) decrease in inventories | (10,174) |
| Increase (decrease) in accounts payable and accrued liabilities | (24,531) |
| Increase (decrease) in customer deposits | (600) |
| Increase (decrease) in compensated absences | <u>(209)</u> |
| Net cash provided (used) by operating activities | <u>\$ 492,776</u> |

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

TOWN OF ELKIN, NORTH CAROLINA**STATEMENT OF FIDUCIARY NET POSITION****FIDUCIARY FUND****JUNE 30, 2019****Assets:**

| | |
|---------------------------|-----------|
| Cash and cash equivalents | \$ 24,323 |
|---------------------------|-----------|

Liabilities:

| | |
|---------------------------|-----------|
| Intergovernmental payable | \$ 24,323 |
|---------------------------|-----------|

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

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TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Elkin (the “Town”) and its discretely presented component units conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town is located in Surry County and Wilkes County in the northwestern section of the Piedmont Area of North Carolina at the Foothills of the Blue Ridge Mountains and has a population of approximately 4,000.

The Town is a municipal corporation, which is governed by an elected Mayor and a five-member Council. The Town maintains its own police and fire departments. In addition, the Town operates water utilities for the incorporated area and water utilities for the immediate surrounding area on a limited basis. As required by generally accepted accounting principles, these financial statements present the Town and its component units, the Yadkin Valley ABC Board, a legally separate entity for which the Town is financially accountable, along with the Town of Elkin Tourism Development Authority. These component units are discretely presented in separate columns in the Town’s financial statements in order to emphasize they are legally separate from the Town.

Yadkin Valley ABC Board

The Board was established by resolutions of the Towns of Elkin and Jonesville. Effective July 1, 2015 the Elkin ABC Board, which was established on May 3, 1982, merged into the newly formed Yadkin Valley ABC Board, which would serve the towns of Elkin and Jonesville. The Towns’ governing bodies appoint the ABC Board. Complete financial statements for the ABC Board may be obtained from the entity’s administrative office at 612 CC Camp Rd., Elkin, North Carolina 28621.

Town of Elkin Tourism Development Authority

The members of the Town of Elkin Tourism Development Authority’s (the “TDA”) governing board are appointed by the Town Council. In accordance with state law (S.L. 1998-112), the purpose of the TDA is to promote travel, tourism, and corporate travel in the Town, sponsor tourist-related events and activities in the district, and finance tourist-related capital projects in the Town. Complete financial statements for the TDA may be obtained from the entity’s administrative office at 226 North Bridge Street, Elkin, North Carolina 28621.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

B. Basis of Presentation

Government-Wide Statements. The Statement of Net Position and the Statement of Activities display information about the primary government and its component units. These statements include the financial activities of the overall government except fiduciary activities. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole, or in part, by fees charged to external parties.

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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

The Town reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, federal and state grants, and various other taxes and licenses. The primary expenditures are for public safety, transportation, environmental protection, cultural and recreational, and general government services.

Airport Capital Projects Ordinance Fund. This fund accounts for the financial resources to be used for various airport construction and improvement projects.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

The Town reports the following nonmajor governmental funds:

Municipal Service District Fund. This fund is a special revenue fund, which accounts for the receipt and expenditure of tax revenues levied for the Municipal Service District, a special tax district.

Workforce Center Capital Project Ordinance Fund. This fund accounts for the financial resources to be used for the renovation of an existing building for The Elkin Center, a campus of Surry County Community College.

The Town reports the following major enterprise funds:

Water Fund. This fund is used to account for the Town's water operations. The Elkin Raw Water System Improvements Capital Project Fund is consolidated into the Water Fund for financial reporting purposes. The budgetary comparison for the Elkin Raw Water System Improvements Capital Project Fund has been included in the supplemental information.

The Town reports the following fund types:

Agency Fund. Agency funds are custodial in nature and do not involve the measurement of operating results. Agency funds are used to account for assets the Town holds on behalf of others. The Town maintains the Firemen's Retirement Agency Fund, which accounts for money held for the Firemen's Relief Fund Board.

C. Measurement Focus and Basis of Accounting

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

Government-Wide, Proprietary and Fiduciary Fund Financial Statements. The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, except for the agency fund, which has no measurement focus. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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 Town's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales 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.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under installment purchase agreements are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, state law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Use of Estimates

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Enterprise Fund, and the Municipal Service District Fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for governmental and enterprise capital project funds. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for the multi-year funds. All amendments must be approved by the governing body. During the year, several amendments to the original budget were necessary, the effect of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

Deposits and Investments

All deposits of the Town are made in Board-designated official depositories and are secured as required by state law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value. Non-participating investment contracts are reported at cost. The securities of the NCCMT Government Portfolio, an SEC-registered (2a-7) government money market fund, is valued at fair value. The NCCMT-Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2019, the Term Portfolio has a duration of .11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

Restricted Assets

Powell Bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

Governmental Activities:

General Fund:

| | |
|-------------------------------|--------------|
| Transportation | \$ 1,057 |
| Total governmental activities | <u>1,057</u> |

Business-Type Activities:

Water Fund:

| | |
|--------------------------------|---------------|
| Customer deposits | <u>50,618</u> |
| Total business-type activities | <u>50,618</u> |

| | |
|-----------------------|-------------------------|
| Total restricted cash | <u><u>\$ 51,675</u></u> |
|-----------------------|-------------------------|

Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, penalties and interest do not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2018. As allowed by state law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowances for Doubtful Accounts

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

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Inventory and Prepaid Items

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The Town's Enterprise Fund inventory consists of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows:

| | Cost |
|------------------------------------|-------------|
| Land and land improvements | \$ 100 |
| Buildings and improvements | 5,000 |
| Vehicles, furniture, and equipment | 5,000 |
| Infrastructure | 75,000 |

Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

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

| Asset Class | Estimated Useful Lives |
|---|-------------------------------|
| Land improvements, buildings, and infrastructure | 20 to 50 years |
| Furniture, fixtures, equipment, heavy equipment, and vehicles | 5 to 10 years |
| Computer equipment and software | 3 years |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position will sometimes report a separate section for deferred outflow of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meet this criteria – pension and OPEB related deferrals. In addition to liabilities, the Statement of Net Position can also report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criteria for this category – prepaid taxes, property taxes receivable, unavailable revenue, pension and OPEB deferrals.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type fund Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

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

Compensated Absences

The vacation policy of the Town provides for the accumulation of up to two hundred forty (240) hours for 80-hour pay period employees, two hundred fifty two (252) hours for 84-hour pay period employees, and three hundred thirty six (336) hours for 112.32-hour pay period employees earned vacation leave, with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

In accordance with the Fair Labor Standards Act, the Town allows all non-exempt employees to accrue compensatory time up to the specified limits of forty (40) hours. The Town uses a first-in, first-out method for the use of this compensatory time.

Net Position/Fund Balances

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

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

The governmental fund types classify fund balances as follows:

Non-Spendable Fund Balance

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

Restricted Fund Balance

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

Stabilization by State Statute – North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State Statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by state statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.* Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation". RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding encumbrances are included within RSS. RSS is included as a component of restricted net position and restricted fund balance on the face of the balance sheet.

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

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Restricted for Cultural and Recreational – portion of fund balance restricted by revenue source for use for parks, libraries, arts, and other related activities.

Restricted for General Government – portion of fund balance restricted by revenue source for use of general government activities related to cemetery and airport projects.

Restricted for Public Safety – portion of fund balance restricted by revenue source for public safety related activities, such as fire protection, drug awareness, and DARE scholarships.

Restricted for Economic and Physical Development – portion of fund balance restricted by revenue source for use of economic and physical development activities for municipal service districts.

Committed Fund Balance

This classification represents the portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town's governing body (highest level of decision making authority, the Board of Commissioners) by adoption of an ordinance. The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Assigned Fund Balance

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

Unassigned Fund Balance

Unassigned fund balance represents the portion of fund balance that has not been assigned to another fund or is not restricted, committed, or assigned to specific purposes within the General Fund. The General Fund is the only fund that reports a positive unassigned fund balance.

The Town has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following order: bond/debt proceeds, federal funds, state funds, local non-Town funds, and Town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance and, lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town or when required by grant or other contractual agreements.

The Town has not officially adopted a fund balance policy.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

| | |
|-----------------------------------|---------------------|
| Total fund balance - General Fund | \$ 2,735,180 |
| Less: | |
| Stabilization by state statute | <u>720,213</u> |
| Total available fund balance | <u>\$ 2,014,967</u> |

Defined Benefit Cost – Sharing Plan

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

2. Stewardship, Compliance, and Accountability

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2019, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for General Government Activities (general services) and Public Safety Activities (fire department) by \$2,961 and \$58,892, respectively. Management and the Board will more closely review the budget reports to ensure compliance in future years.

3. Detail Notes On All Funds

A. Assets

Deposits

All the deposits of the Town, the ABC Board, and the TDA are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's, the ABC Board's, or the TDA's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, the ABC Board, and the TDA, these deposits are considered to be held by the Town's, the ABC Board's, and the TDA's agents in these units' name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the ABC Board, the TDA, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town, the ABC Board, or the TDA under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

The Town, the ABC Board, and the TDA have no policy regarding custodial risk for deposits, but rely on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance.

The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risks for deposits.

At June 30, 2019, the Town's deposits had a carrying amount of \$2,266,461 and a bank balance of \$2,505,225. Of the bank balance, \$750,000 was covered by federal depository insurance, and the remainder was covered by collateral held under the Pooling Method. At June 30, 2019, the Town's petty cash fund totaled \$8,950.

At June 30, 2019, the Yadkin Valley ABC Board's deposits had a carrying amount of \$454,116 and a bank balance of \$331,805. All of the bank balance was covered by federal depository insurance.

At June 30, 2019, the Town of Elkin Tourism and Development Authority's deposits had a carrying amount of \$76,453 and a bank balance of \$78,567. All of the bank balance was covered by federal depository insurance.

Investments

At June 30, 2019, the Town's investment balances were as follows:

| <u>Investment Type</u> | Valuation | Book Value at 6/30/2019 | Maturity |
|----------------------------|-------------------------------|------------------------------------|-----------------|
| | Measurement Method | | |
| NC Capital Management | | | |
| Trust Government Portfolio | Fair Value - Level 1 | \$ 1,819,118 | N/A |
| NC Capital Management | | | |
| Trust Term Portfolio | Fair Value - Level 1 | 263,403 | .11 years |
| Total | | <u>\$ 2,082,521</u> | |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of Fair Value Hierarchy: Level 1 Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets. Level 2 debt securities are valued using a matrix pricing technique. Matrix pricing is used to value securities based on the securities' benchmark quoted prices.

Interest Rate Risk. The Town has no formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Town has no policy regarding credit risk. The Town's investment in the NC Capital Management Trust Government Portfolio carried a rating of AAAM by Standard & Poor's as of June 30, 2019. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

Receivables

The receivables shown in Exhibit A at June 30, 2019 were as follows:

| | <u>Accounts</u> | <u>Taxes</u> | <u>Due from Other Governments</u> | <u>Total</u> |
|----------------------------------|-------------------|-------------------|---|-------------------|
| Governmental Activities: | | | | |
| General | \$ 99,366 | \$ 268,684 | \$ 667,480 | \$ 1,035,530 |
| Airport Capital Projects Fund | - | - | 19,454 | 19,454 |
| Allowance for doubtful accounts | - | (111,582) | - | (111,582) |
| Total governmental activities | <u>\$ 99,366</u> | <u>\$ 157,102</u> | <u>\$ 686,934</u> | <u>\$ 943,402</u> |
| Business-Type Activities: | | | | |
| Water Fund | \$ 333,955 | \$ - | \$ 53,651 | \$ 387,606 |
| Allowance for doubtful accounts | (136,169) | - | - | (136,169) |
| Total business-type activities | <u>\$ 197,786</u> | <u>\$ -</u> | <u>\$ 53,651</u> | <u>\$ 251,437</u> |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Due from Other Governments

| | <u>County</u> | <u>State</u> | <u>Total</u> |
|--------------------------------|-------------------|-------------------|-------------------|
| Governmental Funds: | | | |
| Sales and use tax distribution | \$ 34,085 | \$ 379,117 | \$ 413,202 |
| NCDOT | - | 19,454 | 19,454 |
| SAFER Grant | - | 48,059 | 48,059 |
| County reimbursement | 100,000 | - | 100,000 |
| Reimbursement from | | | |
| NC League of Municipalities | - | 9,083 | 9,083 |
| Utilities franchise and | | | |
| telecommunications tax | - | 97,136 | 97,136 |
| Total | <u>\$ 134,085</u> | <u>\$ 552,849</u> | <u>\$ 686,934</u> |
| Water Fund: | | | |
| Sales tax refund | <u>\$ -</u> | <u>\$ 53,651</u> | <u>\$ 53,651</u> |
| Total | <u>\$ -</u> | <u>\$ 53,651</u> | <u>\$ 53,651</u> |

Notes Receivable

The Town has the following long-term note receivables as of June 30, 2019:

Governmental Activities:

\$250,000 for cash contributions made by the Town to the Yadkin Valley Sewer Authority for the purpose of helping facilitate the augmentation of the Authority's fund balance, collectively, the "Town Post-Startup Contributions". The contributions shall be paid no later than the end of July of the Town's fiscal year beginning in fiscal year 2010-2011 and ending in fiscal year 2012-2013. If the YVSA has an unpaid balance remaining from its reimbursement to the Town at fiscal year 2025-2026 the YVSA and the Town will negotiate a schedule for the payback of the outstanding balance to the Town at that time.

Business-Type Activities:

\$961,739 for prior sewer related debt incurred by the Town that was transferred to the Yadkin Valley Sewer Authority along with the associated assets. The notes payable are the responsibility of the Authority by interlocal agreement. The Authority will service the debt as it comes due by paying the Town the appropriate principal and interest payments.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Yadkin Valley Sewer Authority:

**Notes Receivable
Balances
June 30, 2019**

Governmental Funds:

Additional annual cash contributions made by the
Town of Elkin, which will be repaid once YVSA
reaches a minimum fund balance of 50%
per interlocal agreement

\$ 250,000

Water Fund:

Waste treatment improvements (1);
(interest rate 4.00%; last payment 4/12/2021)
(payable to Southern Community Bank)

159,465

Waste treatment improvements (2);
(interest rate 4.07%; last payment 8/7/2029)
(payable to Yadkin Valley Bank)

802,274

Total

\$ 961,739

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Capital Assets

Capital asset activity for the primary government for the year ended June 30, 2019 was as follows:

| | <u>July 1, 2018</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2019</u> |
|---------------------------------------|---------------------|-------------------|---------------------|----------------------|
| Governmental Activities: | | | | |
| Non-Depreciable Assets: | | | | |
| Land | \$ 1,415,222 | \$ - | \$ - | \$ 1,415,222 |
| Construction in progress | 674,206 | 389,876 | - | 1,064,082 |
| Total non-depreciable assets | <u>2,089,428</u> | <u>389,876</u> | <u>-</u> | <u>2,479,304</u> |
| Depreciable Assets: | | | | |
| Buildings and improvements | 5,987,776 | 15,721 | (11,855) | 5,991,642 |
| Land improvements | 2,519,107 | 28,000 | - | 2,547,107 |
| Equipment and heavy equipment | 3,061,163 | 120,806 | (147,806) | 3,034,163 |
| Vehicles and motorized equipment | <u>2,263,584</u> | <u>126,061</u> | <u>(125,918)</u> | <u>2,263,727</u> |
| Total depreciable assets | <u>13,831,630</u> | <u>290,588</u> | <u>(285,579)</u> | <u>13,836,639</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and improvements | 3,838,842 | 214,660 | (11,855) | 4,041,647 |
| Land improvements | 1,376,290 | 169,752 | - | 1,546,042 |
| Equipment and heavy equipment | 2,134,514 | 217,557 | (147,806) | 2,204,265 |
| Vehicles and motorized equipment | <u>1,740,911</u> | <u>121,525</u> | <u>(125,918)</u> | <u>1,736,518</u> |
| Total accumulated depreciation | <u>9,090,557</u> | <u>\$ 723,494</u> | <u>\$ (285,579)</u> | <u>9,528,472</u> |
| Capital assets, net | <u>4,741,073</u> | | | <u>4,308,167</u> |
| Governmental activity | | | | |
| capital assets, net | <u>\$ 6,830,501</u> | | | <u>\$ 6,787,471</u> |

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

| | |
|-----------------------------|-------------------|
| General government | \$ 300,776 |
| Public safety | 180,928 |
| Public works/transportation | 64,779 |
| Cultural and recreational | <u>177,011</u> |
| Total depreciation expense | <u>\$ 723,494</u> |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Capital asset activity for the business-type activities for the year ended June 30, 2019 was as follows:

| | <u>July 1, 2018</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2019</u> |
|---------------------------------------|---------------------|-------------------|--------------------|----------------------|
| Business-Type Activities: | | | | |
| Water Fund: | | | | |
| Non-Depreciable Assets: | | | | |
| Land | \$ 128,359 | \$ - | \$ - | \$ 128,359 |
| Construction in progress | <u>275,538</u> | <u>1,549,000</u> | <u>-</u> | <u>1,824,538</u> |
| Total non-depreciable assets | <u>403,897</u> | <u>1,549,000</u> | <u>-</u> | <u>1,952,897</u> |
| Depreciable Assets: | | | | |
| Buildings and improvements | <u>6,882,800</u> | <u>85,589</u> | <u>(3,950)</u> | <u>6,964,439</u> |
| Total depreciable assets | <u>6,882,800</u> | <u>85,589</u> | <u>(3,950)</u> | <u>6,964,439</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and improvements | <u>3,555,180</u> | <u>225,355</u> | <u>(3,950)</u> | <u>3,776,585</u> |
| Total accumulated depreciation | <u>3,555,180</u> | <u>\$ 225,355</u> | <u>\$ (3,950)</u> | <u>3,776,585</u> |
| Capital assets, net | <u>3,327,620</u> | | | <u>3,187,854</u> |
| Business-type activities | | | | |
| capital assets, net | <u>\$ 3,731,517</u> | | | <u>\$ 5,140,751</u> |

Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2019 is composed of the following elements:

| | <u>Governmental Activities</u> | <u>Business-Type Activities</u> |
|---|------------------------------------|-------------------------------------|
| Capital assets, net of depreciation | \$ 6,787,471 | \$ 5,140,751 |
| Long-term debt, total | (202,441) | (2,513,177) |
| Debt for assets no longer owned by the Town | <u>-</u> | <u>961,739</u> |
| Net investment in capital assets | <u>\$ 6,585,030</u> | <u>\$ 3,589,313</u> |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Construction Commitments

The Town had outstanding commitments at June 30, 2019 of \$760,268 for various projects within the Airport Capital Projects Ordinance Fund, and \$106,040 for the Elkin Raw Water System Improvements project.

B. Liabilities

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town is participating in the state-wide Local Governmental Employees' Retirement System (LERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LERS 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 LERS 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 LERS 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 LERS. 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.

Benefits Provided. LERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Elkin employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Elkin's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 7.75% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Elkin were \$158,096 for the year ended June 30, 2019.

Refunds of Contributions – Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60-day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2019, the Town reported a liability of \$689,877 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town's proportion was 0.02908%, which was a decrease of 0.00057% from its proportion measured as of June 30, 2017.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

For the year ended June 30, 2019, the Town recognized pension expense of \$193,759. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Governmental Activities: | | |
| Difference between expected and actual experience | \$ 106,432 | \$ 3,571 |
| Change of assumptions | 183,067 | - |
| Difference between projected and actual investment earnings | 94,699 | - |
| Change in proportion and difference between employer contributions and proportionate share of contributions | 1,967 | 5,099 |
| Town contributions subsequent to the measurement date | <u>158,096</u> | <u>-</u> |
| Total | <u><u>\$ 544,261</u></u> | <u><u>\$ 8,670</u></u> |

\$158,096 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending June 30</u> | <u>Amount</u> |
|--------------------------------|--------------------------|
| 2020 | \$ 181,683 |
| 2021 | 118,115 |
| 2022 | 22,439 |
| 2023 | 55,258 |
| 2024 | - |
| Thereafter | - |
| Total | <u><u>\$ 377,495</u></u> |

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

| | |
|---------------------------|---|
| Inflation | 3.0 percent |
| Salary increases | 3.50 to 8.10 percent, including inflation and productivity factor |
| Investment rate of return | 7.00 percent, net of pension plan investment |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

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

Future ad hoc COLA amounts are not considered to be substantively automatic and are, therefore, not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|------------------------------|---|
| Fixed income | 29.0% | 1.4% |
| Global equity | 42.0% | 5.3% |
| Real estate | 8.0% | 4.3% |
| Alternatives | 8.0% | 8.9% |
| Credit | 7.0% | 6.0% |
| Inflation protection | <u>6.0%</u> | 4.0% |
| Total | <u>100.0%</u> | |

The information above is based on 30-year expectations developed with the consulting actuary for the 2018 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Discount Rate. The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate. The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00%) or one percentage point higher (8.00%) than the current rate:

| | 1% Decrease (6.00%) | Discount Rate (7.00)% | 1% Increase (8.00%) |
|--|--------------------------------|--------------------------------------|--------------------------------|
| Town's proportionate share of the net pension liability (asset) | \$ 1,657,144 | \$ 689,877 | \$ (118,387) |

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.

Law Enforcement Officers' Special Separation Allowance

Plan Description

The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. A separate report was not issued for the plan.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2017, the Separation Allowance's membership consisted of:

| | |
|-----------------------------|----|
| Retirees receiving benefits | 1 |
| Active plan members | 16 |
| Total | 17 |

Summary of Significant Accounting Policies

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

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

Actuarial Assumptions

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

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

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

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

Mortality rates are as follows:

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

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

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

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

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

Contributions

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay-as-you-go basis through appropriations made in the General Fund operation budget. There were no contributions made by the employees. The Town's obligation to contribute to this Plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$21,129 as benefits came due.

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

At June 30, 2019, the Town reported a total pension liability of \$248,755. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$23,432.

| | Deferred Outflows of Resources | Deferred Inflow of Resources |
|--|---|---|
| Differences between expected and actual experience | \$ 729 | \$ 1,961 |
| Changes of assumptions and other inputs | 13,599 | 13,030 |
| Benefit payments and administrative expenses subsequent to the measurement date | 10,564 | - |
| Total | <u>\$ 24,892</u> | <u>\$ 14,991</u> |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

\$10,564 paid as benefits, have been reported as deferred outflows of resources and will be recognized as a decrease of the total pension liability in the year ending June 30, 2020. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending | |
|--------------------|-----------------|
| June 30 | Amount |
| 2020 | \$ 177 |
| 2021 | 177 |
| 2022 | 177 |
| 2023 | 318 |
| 2024 | (1,355) |
| Thereafter | (157) |
| Total | <u>\$ (663)</u> |

Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate. The following presents the Town's total pension liability calculated using the discount rate of 3.64%, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.64%) or 1-percentage-point higher (4.64%) than the current rate:

| | 1% Decrease (2.64%) | Discount Rate (3.64%) | 1% Increase (4.64%) |
|-------------------------|------------------------------------|--------------------------------------|------------------------------------|
| Total pension liability | <u>\$ 273,474</u> | <u>\$ 248,755</u> | <u>\$ 226,267</u> |

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

| | |
|---|-------------------|
| Beginning balance | \$ 260,919 |
| Service cost | 14,981 |
| Interest on the total pension liability | 7,911 |
| Differences between expected and actual experience in the measurement of the total pension liability | (2,348) |
| Changes of assumptions and other inputs | (11,579) |
| Benefit payments | (21,129) |
| Ending balance of total pension liability | <u>\$ 248,755</u> |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Changes of Assumptions. Changes of assumptions and other inputs reflect a change in the Municipal Bond Index Rate from 3.16% at December 31, 2017 to 3.64% at December 31, 2018.

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.

State 401(k) Supplemental Retirement Income Plan

Plan Description. The Town contributes to the Supplemental Retirement Income Plan (the "Plan"), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to permanent full-time employees of the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each participating general employee's salary and five percent of each participating law enforcement officer's salary, and all amounts contributed are vested immediately.

Also, the participants may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$133,302 which consisted of \$97,422 from the Town, and \$35,880 from the employees. No amounts were forfeited.

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

Following is information related to the proportionate share and pension expense for all pension plans:

| | <u>LGERS</u> | <u>LEOSSA</u> | <u>Total</u> |
|--|--------------|---------------|--------------|
| Proportionate share of net pension liability (asset) | \$ 689,877 | \$ - | \$ 689,877 |
| Proportion of the net pension liability (asset) | 0.02908% | NA | - |
| Total pension liability | - | 248,755 | 248,755 |
| Pension expense | 193,759 | 23,432 | 217,191 |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

| | <u>LGERS</u> | <u>LEOSSA</u> | <u>Total</u> |
|--|-------------------|------------------|-------------------|
| Deferred Outflows of Resources: | | | |
| Differences between expected and actual experience | \$ 106,432 | \$ 729 | \$ 107,161 |
| Changes of assumptions | 183,067 | 13,599 | 196,666 |
| Net difference between projected and actual earnings on pension plan investments | 94,699 | - | 94,699 |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 1,967 | - | 1,967 |
| Town contributions (LGERS) and benefit payments and administration costs (LEOSSA) subsequent to the measurement date | 158,096 | 10,564 | 168,660 |
| | <u>\$ 544,261</u> | <u>\$ 24,892</u> | <u>\$ 569,153</u> |

| | | | |
|---|-----------------|------------------|------------------|
| Deferred Inflows of Resources: | | | |
| Differences between expected and actual experience | \$ 3,571 | \$ 1,961 | \$ 5,532 |
| Changes of assumptions | - | 13,030 | 13,030 |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 5,099 | - | 5,099 |
| | <u>\$ 8,670</u> | <u>\$ 14,991</u> | <u>\$ 23,661</u> |

Other Post-Employment Benefits – Healthcare Benefits

Plan Description. In addition to providing pension benefits prior to April 14, 2014, the Town has elected to provide limited healthcare benefits to retirees. The Town employees who retire before the age of 65 with thirty (30) years of service with the Town may continue coverage in the Town's group health plan until they reach the age of 65. If enrolled in dependent coverage at the time of retirement, the retiree may continue to purchase dependent coverage at the full cost of the Town's group rates. A separate report was not issued for the plan. The plan is a single-employer defined benefit plan. Employees hired after April 14, 2014 are no longer eligible for this benefit.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Membership of the plan consisted of the following at June 30, 2017, the date of the latest actuarial valuation:

| | |
|---|----|
| Retirees and dependents receiving benefits | - |
| Terminated plan members entitled to, but not yet receiving, benefits | - |
| Active plan members | 50 |
| Total | 50 |

Funding Policy. The Town will contribute \$108 per month toward the cost of the retiree's health insurance premium until the retiree becomes eligible for Medicare. Healthcare and prescription drug coverage are provided in the Town's retiree healthcare plan. Eligible retirees may have dental and vision coverage if they pay the full cost of coverage. The retiree may continue dependent coverage (and pay the full cost of this coverage) if enrolled in dependent coverage at the time of retirement. Dependent coverage terminates upon the retiree becoming eligible for Medicare (attaining age 65) or upon the retiree's death, whichever comes first. The Town currently has no retirees or their dependents receiving benefits under the plan. Therefore, the full cost of dependent coverage at the Town rates is \$-0-. The Town has chosen to fund the healthcare benefits on a pay-as-you-go basis.

Total OPEB Liability

The Town's total OPEB liability of \$39,871 was measured as of June 30, 2018 and was determined by an actuarial valuation as of June 30, 2017.

Actuarial Assumptions and Other Inputs. The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

| | |
|-----------------------------|---|
| Inflation | 2.50 percent |
| Real wage growth | 1 percent |
| Wage inflation | 3.50 percent |
| Salary increases | |
| General employees | 3.50 to 7.75 percent |
| Firefighters | 3.50 to 7.75 percent |
| Law enforcement officers | 3.50 to 7.35 percent |
| Municipal bond index rate | |
| Prior measurement date | 3.56 percent |
| Measurement date | 3.89 percent |
| Healthcare cost trend rates | No trend was applied to the contributions |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

The Town selected a Municipal Bond Index Rate equal to the June average of the Bond Buyer 20-year General Obligation Bond Index published weekly by the Bond Buyer, and the discount rate used to measure the TOL is the Municipal Bond Index Rate as of the measurement date.

Changes in the Total OPEB Liability

| | Total OPEB Liability |
|--|-------------------------------------|
| Balance at July 1, 2018 | \$ 38,559 |
| Changes for the year: | |
| Service cost | 1,258 |
| Interest | 1,373 |
| Differences between expected and actual experience | (293) |
| Changes of assumptions or other inputs | (1,026) |
| Net changes | 1,312 |
| Balance at June 30, 2019 | \$ 39,871 |

Changes in assumptions and other inputs reflect a change in the Municipal Bond Index Rate from 3.56% to 3.89%.

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

The demographic actuarial assumptions for retirement, disability incidence, withdrawal, and salary increases used in the June 30, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 – December 31, 2014, adopted by LGERS.

The remaining actuarial assumptions (e.g., initial per capita costs, health care cost trends, rate of plan participation, rates of plan election, etc.) used in the June 30, 2017 valuation were based on a review of recent plan experience done concurrently with the June 30, 2017 valuation.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.89%) or 1-percentage-point higher (4.89%) than the current discount rate:

| | 1% Decrease (2.89%) | Discount Rate (3.89%) | 1% Increase (4.89%) |
|----------------------|------------------------------------|--------------------------------------|------------------------------------|
| Total OPEB liability | <u>\$ 43,065</u> | <u>\$ 39,871</u> | <u>\$ 36,922</u> |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current healthcare cost trend rates:

| | <u>1% Decrease</u> | <u>Current</u> | <u>1% Increase</u> |
|----------------------|------------------------|----------------|------------------------|
| Total OPEB liability | \$ 39,871 | \$ 39,871 | \$ 39,871 |

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

For the year ended June 30, 2019, the Town recognized OPEB expense of \$2,336. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|---|--|
| Differences between expected and actual experience | \$ - | \$ 265 |
| Changes of assumptions | - | 2,356 |
| Benefit payments and plan administrative expense made subsequent to the measurement date | 12,120 | - |
| Total | <u>\$ 12,120</u> | <u>\$ 2,621</u> |

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

| <u>Year Ending June 30</u> | <u>Total</u> |
|--------------------------------|-------------------|
| 2020 | \$ (295) |
| 2021 | (295) |
| 2022 | (295) |
| 2023 | (295) |
| 2024 | (295) |
| Thereafter | (1,146) |
| Total | <u>\$ (2,621)</u> |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Payables

Payables at the government-wide level at June 30, 2019 were as follows:

| | <u>Vendors</u> | <u>Salaries and Benefits</u> | <u>Total</u> |
|---|-------------------|----------------------------------|-------------------|
| Governmental Activities: | | | |
| General Fund | \$ 118,460 | \$ 103,858 | \$ 222,318 |
| Airport Capital Projects Ordinance Fund | <u>16,438</u> | <u>-</u> | <u>16,438</u> |
| Total governmental activities | <u>\$ 134,898</u> | <u>\$ 103,858</u> | <u>\$ 238,756</u> |
| Business-Type Activities: | | | |
| Water Fund | <u>\$ 100,020</u> | <u>\$ 7,673</u> | <u>\$ 107,693</u> |

Deferred Outflows and Inflows of Resources

Deferred outflows of resources are comprised of the following:

| <u>Source</u> | <u>Amount</u> |
|-------------------|-------------------|
| Pension deferrals | \$ 569,153 |
| OPEB deferrals | <u>12,120</u> |
| Total | <u>\$ 581,273</u> |

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

| <u>Source</u> | <u>Amount</u> |
|---|-------------------|
| Property taxes receivable (General Fund) | \$ 157,102 |
| Prepaid taxes not yet earned (General Fund) | 1,456 |
| Unavailable revenues (General Fund) | 300,088 |
| Unavailable revenues (Airport Capital Projects Ordinance Fund) | 19,454 |
| Pension deferrals | 23,661 |
| OPEB deferrals | <u>2,621</u> |
| Total | <u>\$ 504,382</u> |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial insurance coverage for all risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims resulting from these risks have not exceeded coverage in any to the past three fiscal years. The Town has workers' compensation coverage up to the statutory limit and employee health coverage up to an unlimited lifetime limit.

The Town does not carry flood insurance due to its geographic location.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Finance Officer and the Tax Collector are individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$25,000.

Contingent Liabilities

At June 30, 2019, the Town was a defendant to various lawsuits. Management believes that the ultimate outcome of these legal matters will not have a material adverse effect on the financial position of the Town.

Long-Term Debt

Installment Purchases

Installment purchase notes payable at June 30, 2019 are comprised of the following individual notes:

Governmental Activities:

| | |
|---|-------------------|
| \$578,957 installment purchase dated March 21, 2014 for the purchase of equipment; due in annual installments of \$49,088 including interest at 2.37% through May 1, 2022 | \$ 140,550 |
| \$177,000 installment purchase dated March 21, 2014 for the purchase of equipment; due in annual installments of \$21,615, plus interest at 2.37% through May 1, 2022 | <u>61,891</u> |
| Total governmental activities | <u>\$ 202,441</u> |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

The Town's outstanding installment purchase debt from direct placements related to governmental activities of \$140,550 are secured with the equipment. The Town's outstanding installment purchase debt from direct placements related to governmental-type activities of \$140,550, contain provisions that an event of default would result in (1) the unpaid principal components of the installment payments immediately due and payable, (2) proceed by appropriate court action to enforce the Town's performance of the applicable covenants of the agreement or to recover for the breach and (3) avail itself of all available remedies under the agreement, including execution and recovery of attorney's fees and other expenses.

The Town's outstanding installment purchase debt from direct placements related to governmental activities of \$61,891 are secured with the equipment. The Town's outstanding installment purchase debt from direct placements related to governmental-type activities of \$61,891, contain provisions that an event of default would result in (1) the unpaid principal components of the installment payments immediately due and payable, (2) proceed by appropriate court action to enforce the Town's performance of the applicable covenants of the agreement or to recover for the breach and (3) avail itself of all available remedies under the agreement, including execution and recovery of attorney's fees and other expenses.

Business-Type Activities:

\$1,000,000 installment purchase dated April 12, 2006 and funded on August 2, 2006 for waste treatment improvements; due in annual installments of \$82,794, including interest at 2.55% through April 12, 2021. The loan is secured by upgrades to the Wastewater Treatment Plant. \$ 159,465

\$1,275,000 installment loan dated August 7, 2009 for the Regional Sewer Project; due in annual installments of \$86,675, including principal and interest at 2.95% through October, 2029. The loan is secured by the site and equipment of the project. 802,274

\$1,551,438 installment loan dated March 27, 2019 for the Raw Water Improvements Project; due in annual installments of \$93,653, including principal and interest at 1.84% through May, 2039. This loan was approved for \$1,737,230 in February 2018 and will increase based upon drawdowns during project finalization in fiscal year 2020 as the drinking water project is complete. 1,551,438

Total business-type activities \$ 2,513,177

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

The Town's outstanding installment purchase debt from direct placements related to business type activities of \$159,465 are secured with the upgrades to the Wastewater Treatment Plant. The Town's outstanding installment purchase debt from direct placements related to business-type activities of \$159,465, contain provisions that an event of default would result in (1) immediate payment of all that is owed under the note (principal, accrued/unpaid interest and other accrued charges), (2) security, additional security, or additional parties to be obligated to pay this note as a condition for not using any other remedy, (3) refusal to make advances to the Town or allow purchases on credit by the Town and (4) any remedy available under state or federal law.

The Town's outstanding installment purchase debt from direct placements related to business-type activities of \$802,247 are secured with the equipment and all moneys on deposit from time to time in the Project Fund. The Town's outstanding installment purchase debt from direct placements related to business-type activities of \$802,247, contain provisions that an event of default would result in (1) the unpaid principal components of the installment payments immediately due and payable, (2) proceed by appropriate court action to enforce the Town's performance of the applicable covenants of the agreement or to recover for the breach, (3) avail itself of all available remedies under the agreement, including execution and recovery of attorney's fees and other expenses and (4) pay over any balance remaining in the Project Fund to be applied against outstanding required payments in any manner YVB may reasonably seem appropriate.

The Town's outstanding installment purchase debt from direct borrowings related to business-type activities of \$1,551,438 are secured with the water infrastructure. The Town's outstanding installment purchase debt from direct borrowings related to business-type activities of \$1,551,438, contain provisions that an event of default would result in immediate repayment of note in whole and any further commitment of funds may be withdrawn.

The future minimum payments of the installment purchases as of June 30, 2019 are as follows:

| Year Ending June 30 | Governmental Activities | | Business-Type Activities | |
|--------------------------------|--------------------------------|-----------------|---------------------------------|-------------------|
| | Principal | Interest | Principal | Interest |
| 2020 | \$ 65,906 | \$ 4,798 | \$ 164,173 | \$ 52,123 |
| 2021 | 67,468 | 3,236 | 211,056 | 52,067 |
| 2022 | 69,067 | 1,637 | 133,526 | 46,801 |
| 2023 | - | - | 136,754 | 43,574 |
| 2024 | - | - | 140,064 | 40,264 |
| 2025-2029 | - | - | 714,677 | 140,137 |
| 2030-2034 | - | - | 483,218 | 71,720 |
| Thereafter | - | - | 529,709 | 32,207 |
| Total | <u>\$ 202,441</u> | <u>\$ 9,671</u> | <u>\$ 2,513,177</u> | <u>\$ 478,893</u> |

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Changes in Long-Term Liabilities

During the year ended June 30, 2019, the following changes occurred in long-term obligations:

| | <u>July 1, 2018</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2019</u> | <u>Current Portion of Balance</u> |
|---|---------------------|---------------------|---------------------|----------------------|---|
| Governmental Activities: | | | | | |
| Notes from direct placements | \$ 362,267 | \$ - | \$ (159,826) | \$ 202,441 | \$ 65,906 |
| Compensated absences | 187,933 | 120,489 | (139,880) | 168,542 | 84,271 |
| Net pension obligation (LGERS) | 452,970 | 236,907 | - | 689,877 | - |
| Total OPEB liability | 38,559 | 1,312 | - | 39,871 | - |
| Total pension liability (LEOSSA) | 260,919 | - | (12,164) | 248,755 | - |
| Total governmental activities | <u>\$ 1,302,648</u> | <u>\$ 358,708</u> | <u>\$ (311,870)</u> | <u>\$ 1,349,486</u> | <u>\$ 150,177</u> |
| Business-Type Activities: | | | | | |
| Notes from direct placements and direct borrowings | \$ 1,099,234 | \$ 1,551,438 | \$ (137,495) | \$ 2,513,177 | \$ 164,173 |
| Compensated absences | 20,472 | 13,302 | (13,511) | 20,263 | 10,132 |
| Total business-type activities | <u>\$ 1,119,706</u> | <u>\$ 1,564,740</u> | <u>\$ (151,006)</u> | <u>\$ 2,533,440</u> | <u>\$ 174,305</u> |

Compensated absences and pension obligation liabilities have typically been liquidated in the General Fund.

At June 30, 2019, the Town had a legal debt margin of \$40,875,944.

Interfund Balances and Activity

Balances due to/from other funds at June 30, 2019 consist of the following:

| | |
|---|-------------------|
| Due from the General Fund | |
| to the Airport Capital Projects Ordinance Fund for operating cash | \$ 104,897 |
| Due from the nonmajor governmental funds | |
| to the General Fund for operating cash | 3,455 |
| Due from the General Fund | |
| to the nonmajor governmental funds for operating cash | <u>220,617</u> |
| Total | <u>\$ 328,969</u> |

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Transfers to/from other funds at June 30, 2019 consist of the following:

| | |
|---|-------------------|
| From the General Fund to the Airport Capital | |
| Projects Ordinance Fund for the Town's contribution match | <u>\$ 100,000</u> |

4. Joint Ventures

The Town and the members of the Town's fire department each appoint two members to the five-member local Board of Trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightening insurance premiums that insurers remit to the state. The state passes these monies to the local Board of the Firemen's Relief Fund. The funds are used to assist firefighters in various ways. The Town obtains an ongoing financial benefit from the Fund for the on-behalf payments for salaries and fringe benefits made to members of the Town's fire department by the Board of Trustees. The participating governments do not have any equity interest in the joint venture, so no equity has been reflected in the financial statements at June 30, 2019. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

On-Behalf Payments for Fringe Benefits and Salaries

Also, the Town has recognized as a revenue and an expenditure on-behalf payments for fringe benefits and salaries of \$9,342 for the salary supplement and stipend benefits paid to eligible firemen by the local board of trustees of the Firefighter's Relief Fund during the fiscal year ended June 30, 2019. Under state law, the local board of trustees for the Fund receives an amount each year that the Board may use as its own discretion for eligible firefighters or their departments.

5. Jointly Governed Organizations

Piedmont Triad Council of Governments

The Town, in conjunction with five counties and 21 other municipalities, established the Northwest Piedmont Council of Governments (the "Council"). The participating governments established the Council to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$1,465 to the Council during the fiscal year ended June 30, 2019.

TOWN OF ELKIN, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2019

Yadkin Valley Sewer Authority

The Yadkin Valley Sewer Authority (the “YVSA”) was formed on April 19, 2006 by the Town of Elkin (Surry County), the Town of Jonesville (Yadkin County), and the Town of Ronda (Wilkes County) by authority established by Article 1 of Chapter 162A of the General Statutes of North Carolina. The YVSA’s Board is comprised of five members, with one of the members acting as chairperson. In accordance with the YVSA By-laws, there shall be five voting members of the Board, with two appointed by the Elkin Town Council, two appointed by the Jonesville Town Council, and one appointed by the Ronda Town Council. The Town loaned \$-0- to the YVSA during the fiscal year ended June 30, 2019. The Authority by interlocal agreement and by Board action, has agreed to repay annual payments on another loan that was entered into on behalf of the Authority during the start-up phase. These amounts will not be paid until the Authority reaches a 50% fund balance (per Interlocal Agreement, Article VIII, Section 9.4(a)(ii)(B) page 23). In addition to the above, the YVSA will, beginning on the fifth anniversary of the Operation Date, reimburse Elkin for simple interest accrued at the rate of four percent (4%) per annum on the outstanding aggregate amount of the Prior Elkin Project Loan Payments not previously reimbursed by the YVSA (per Interlocal Agreement Article VIII, Section 9.4(a)(ii)(C) page 23). If the YVSA has an unpaid balance remaining from its reimbursement to the Town for their post-startup contributions at fiscal year 2025-2026, the YVSA and the Town will negotiate a schedule for the payback of the outstanding balance to the Town at that time.

Reimbursement of Loan Payments and Expenses:

| | Payment Dates | Payment Amounts |
|--|--------------------------|----------------------------|
| Additional annual cash contributions made by the | FY 2011 | \$ 100,000 |
| Town of Elkin, which will be repaid once YVSA reaches | FY 2012 | 100,000 |
| a minimum fund balance of 50% per interlocal agreement | FY 2013 | 50,000 |
| | | <u>\$ 250,000</u> |

6. Summary Disclosure of Significant Contingencies

Federal and State-Assisted Programs

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

7. Subsequent Events

As of January 1, 2020, the Town entered into an Interlocal Agreement with Surry County for the transfer of ownership interest in utility installations to the Town and agrees to assume all obligations, operation and maintenance of the utility installations.

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TOWN OF ELKIN, NORTH CAROLINA
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST THREE FISCAL YEARS

| | Law Enforcement Officers' Special Separation Allowance | | |
|--|---|-------------------|-------------------|
| | 2019 | 2018 | 2017 |
| Beginning balance | \$ 260,919 | \$ 227,704 | \$ 223,448 |
| Service cost | 14,981 | 14,434 | 13,278 |
| Interest on the total pension liability | 7,911 | 8,581 | 7,784 |
| Difference between expected and actual experience in the measurement of the total pension liability | (2,348) | 1,069 | - |
| Changes of assumptions and other inputs | (11,579) | 19,953 | (5,984) |
| Benefit payments | (21,129) | (10,822) | (10,822) |
| Ending balance of the total pension liability | <u>\$ 248,755</u> | <u>\$ 260,919</u> | <u>\$ 227,704</u> |

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

* Pension schedules in the required supplementary information are intended to show information for ten years and that additional years' information will be displayed as it becomes available.

TOWN OF ELKIN, NORTH CAROLINA**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
LAST THREE FISCAL YEARS****Law Enforcement Officers' Special Separation Allowance**

| | 2019 | 2018 | 2017 |
|--|-------------|-------------|-------------|
| Total pension liability | \$ 248,755 | \$ 260,919 | \$ 227,704 |
| Covered payroll | 654,928 | 671,442 | 554,774 |
| Total pension liability as a percentage of covered payroll | 37.98% | 38.86% | 41.04% |

Notes to the Schedules:

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

* Pension schedules in the required supplementary information are intended to show information for ten years and that additional years' information will be displayed as it becomes available.

TOWN OF ELKIN, NORTH CAROLINA**OTHER POST-EMPLOYMENT BENEFITS****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY AND RELATED RATIOS****LAST TWO FISCAL YEARS**

| Other Post-Employment Benefits | | |
|---|------------------|------------------|
| | 2019 | 2018 |
| Service cost | \$ 1,258 | \$ 1,373 |
| Interest | 1,373 | 1,138 |
| Differences between expected and actual experience | (293) | - |
| Changes of assumptions or other inputs | (1,026) | (1,766) |
| Net change in total OPEB liability | 1,312 | 745 |
| Total OPEB liability - beginning | 38,559 | 37,814 |
| Total OPEB liability - ending | <u>\$ 39,871</u> | <u>\$ 38,559</u> |
| Covered payroll | \$ 1,841,351 | \$ 1,841,351 |
| Total OPEB liability as a percentage of covered payroll | 2.17% | 2.09% |

Notes to the Required Schedules:

Changes of Assumptions: Changes of assumptions and other inputs reflect the effects of changes in the discount rate of each period. The following are the discount rates used in each period:

| Fiscal Year | Rate |
|--------------------|-------------|
| 2018 | 3.56% |
| 2019 | 3.89% |

This schedule is intended to show information for ten years. Additional years' information will be displayed as it becomes available.

TOWN OF ELKIN, NORTH CAROLINA**TOWN OF ELKIN'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)****REQUIRED SUPPLEMENTARY INFORMATION****LAST SIX FISCAL YEARS***

| Local Government Employees' Retirement System | | | | | | |
|---|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Elkin's proportion of the net pension liability (asset) (%) | 0.02908% | 0.02965% | 0.03002% | 0.03182% | 0.03200% | 0.03130% |
| Elkin's proportion of the net pension liability (asset) (\$) | \$ 689,877 | \$ 452,970 | \$ 637,125 | \$ 142,806 | \$ (188,719) | \$ 377,285 |
| Elkin's covered payroll | \$ 1,932,956 | \$ 1,876,646 | \$ 1,805,563 | \$ 1,833,612 | \$ 1,809,647 | \$ 1,599,190 |
| Elkin's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 35.69% | 24.14% | 35.29% | 7.79% | -10.43% | 23.59% |
| Plan fiduciary net position as a percentage of the total pension liability** | 91.63% | 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.

** This will be the same percentage for all participant employers in the LGERS plan.

*** Pension schedules in the required supplementary information are intended to show information for ten years and that additional years' information will be displayed as it becomes available.

TOWN OF ELKIN, NORTH CAROLINA**TOWN OF ELKIN'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST SIX FISCAL YEARS***

| Local Government Employees' Retirement System | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Contractually required contribution | \$ 158,096 | \$ 150,835 | \$ 142,142 | \$ 124,649 | \$ 131,698 | \$ 129,194 |
| Contributions in relation to the contractually required contribution | <u>158,096</u> | <u>150,835</u> | <u>142,142</u> | <u>124,649</u> | <u>131,698</u> | <u>129,194</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Elkin's covered payroll | \$ 1,961,381 | \$ 1,932,956 | \$ 1,876,646 | \$ 1,805,563 | \$ 1,833,612 | \$ 1,809,647 |
| Contributions as a percentage of covered payroll | 8.06% | 7.80% | 7.57% | 6.90% | 7.18% | 7.14% |

* Pension schedules in the required supplementary information are intended to show information for ten years and that additional years' information will be displayed as it becomes available.

TOWN OF ELKIN, NORTH CAROLINA

GENERAL FUND SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL FOR THE YEAR ENDED JUNE 30, 2019

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|---|-------------------------|------------------|--------------------------------|
| Revenues: | | | |
| Ad Valorem Taxes: | | | |
| Current year | \$ 2,538,124 | \$ 2,555,203 | \$ 17,079 |
| Prior year | 178,100 | 177,760 | (340) |
| Penalties and interest | 10,650 | 22,112 | 11,462 |
| Total | <u>2,726,874</u> | <u>2,755,075</u> | <u>28,201</u> |
| Other Taxes and Licenses: | | | |
| Motor vehicle fees | 7,285 | 8,917 | 1,632 |
| Privilege license | - | 890 | 890 |
| Total | <u>7,285</u> | <u>9,807</u> | <u>2,522</u> |
| Unrestricted Intergovernmental Revenues: | | | |
| Local option sales tax | 1,275,000 | 1,214,389 | (60,611) |
| Utility/telecommunications franchise tax | 433,000 | 428,134 | (4,866) |
| ABC revenue | 3,175 | 4,025 | 850 |
| Beer and wine | 18,000 | 16,881 | (1,119) |
| Total | <u>1,729,175</u> | <u>1,663,429</u> | <u>(65,746)</u> |
| Restricted Intergovernmental Revenues: | | | |
| Powell Bill allocation | 126,000 | 123,873 | (2,127) |
| School resource officer | 80,620 | 80,429 | (191) |
| Other grant revenues | 28,250 | 187,201 | 158,951 |
| Forfeitures, seizures, and judgments | 500 | - | (500) |
| Total | <u>235,370</u> | <u>391,503</u> | <u>156,133</u> |
| Total intergovernmental revenues | <u>1,964,545</u> | <u>2,054,932</u> | <u>90,387</u> |
| Sales and Services: | | | |
| Recreation | 239,400 | 238,541 | (859) |
| Garbage, leaf, limb, and recycling fees | 271,080 | 282,649 | 11,569 |
| Total | <u>510,480</u> | <u>521,190</u> | <u>10,710</u> |
| Permits and Fees: | | | |
| Fire inspection fees | 792 | 1,097 | 305 |
| Zoning fees | 2,000 | 4,421 | 2,421 |
| Court costs and fees | 2,000 | 1,260 | (740) |
| Other | - | 149 | 149 |
| Total | <u>4,792</u> | <u>6,927</u> | <u>2,135</u> |

TOWN OF ELKIN, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

| | Final Budget | Actual | Variance Over/Under |
|--------------------------------|-------------------------|---------------|--------------------------------|
| Investment Earnings: | | | |
| Interest on investments | 43,343 | 42,848 | (495) |
| Total | 43,343 | 42,848 | (495) |
| Other Revenues: | | | |
| Sale of surplus property | - | 2,667 | 2,667 |
| Donations | 27,500 | 50,470 | 22,970 |
| Miscellaneous | 67,983 | 81,121 | 13,138 |
| Total | 95,483 | 134,258 | 38,775 |
| Total revenues | 5,352,802 | 5,525,037 | 172,235 |
| Expenditures: | | | |
| General Government: | | | |
| Governing Body: | | | |
| Salaries and employee benefits | 20,310 | 20,950 | (640) |
| Operating expenses | 126,446 | 122,967 | 3,479 |
| Total | 146,756 | 143,917 | 2,839 |
| General Services: | | | |
| Salaries and employee benefits | 42,000 | 43,463 | (1,463) |
| Operating expenses | 134,077 | 135,575 | (1,498) |
| Total | 176,077 | 179,038 | (2,961) |
| Administration: | | | |
| Salaries and employee benefits | 167,269 | 164,341 | 2,928 |
| Operating expenses | 11,250 | 9,537 | 1,713 |
| Total | 178,519 | 173,878 | 4,641 |
| Finance: | | | |
| Salaries and employee benefits | 165,841 | 160,833 | 5,008 |
| Operating expenses | 69,750 | 74,670 | (4,920) |
| Total | 235,591 | 235,503 | 88 |
| Legal: | | | |
| Salaries and employee benefits | 19,377 | 16,470 | 2,907 |
| Operating expenses | 31,000 | 4,211 | 26,789 |
| Total | 50,377 | 20,681 | 29,696 |

TOWN OF ELKIN, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

| | Final Budget | Actual | Variance Over/Under |
|--------------------------------|-------------------------|---------------|--------------------------------|
| Main Street: | | | |
| Salaries and employee benefits | 63,838 | 64,448 | (610) |
| Operating expenses | 6,350 | 5,178 | 1,172 |
| Total | 70,188 | 69,626 | 562 |
| Economic Development: | | | |
| Salaries and employee benefits | 83,635 | 86,599 | (2,964) |
| Operating expenses | 370,717 | 345,496 | 25,221 |
| Total | 454,352 | 432,095 | 22,257 |
| Planning and Zoning: | | | |
| Salaries and employee benefits | 66,387 | 62,303 | 4,084 |
| Operating expenses | 30,150 | 26,598 | 3,552 |
| Total | 96,537 | 88,901 | 7,636 |
| Public Buildings: | | | |
| Operating expenses | 69,000 | 64,510 | 4,490 |
| Total | 69,000 | 64,510 | 4,490 |
| Total general government | 1,477,397 | 1,408,149 | 69,248 |
| Public Safety: | | | |
| Police Department: | | | |
| Salaries and employee benefits | 1,156,317 | 1,145,626 | 10,691 |
| Operating expenses | 95,200 | 83,367 | 11,833 |
| Capital outlay | 12,170 | 9,140 | 3,030 |
| Total | 1,263,687 | 1,238,133 | 25,554 |
| Fire Department: | | | |
| Salaries and employee benefits | 369,171 | 292,241 | 76,930 |
| Operating expenses | 130,000 | 266,914 | (136,914) |
| Capital outlay | 137,500 | 136,408 | 1,092 |
| Total | 636,671 | 695,563 | (58,892) |
| Total public safety | 1,900,358 | 1,933,696 | (33,338) |

TOWN OF ELKIN, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|----------------------------------|--------------------------------|----------------------|---------------------------------------|
| Transportation: | | | |
| Garage: | | | |
| Salaries and benefits | 45,375 | 45,628 | (253) |
| Operating expenditures | 22,500 | 20,910 | 1,590 |
| Capital outlay | <u>16,000</u> | <u>15,721</u> | <u>279</u> |
| Total | <u>83,875</u> | <u>82,259</u> | <u>1,616</u> |
| Streets and Highways: | | | |
| Salaries and benefits | 253,068 | 244,715 | 8,353 |
| Operating expenditures | 213,900 | 197,241 | 16,659 |
| Capital outlay | <u>51,000</u> | <u>54,449</u> | <u>(3,449)</u> |
| Total | <u>517,968</u> | <u>496,405</u> | <u>21,563</u> |
| Powell Bill: | | | |
| Salaries and benefits | 20,000 | 20,000 | - |
| Operating expenditures | <u>146,000</u> | <u>130,767</u> | <u>15,233</u> |
| Total | <u>166,000</u> | <u>150,767</u> | <u>15,233</u> |
| Airport: | | | |
| Operating expenditures | 31,350 | 30,632 | 718 |
| Capital outlay | <u>54,667</u> | <u>-</u> | <u>54,667</u> |
| Total | <u>86,017</u> | <u>30,632</u> | <u>55,385</u> |
| Total transportation | <u>853,860</u> | <u>760,063</u> | <u>93,797</u> |
| Environmental Protection: | | | |
| Operating expenditures | <u>220,894</u> | <u>209,577</u> | <u>11,317</u> |
| Total | <u>220,894</u> | <u>209,577</u> | <u>11,317</u> |
| Cemetery: | | | |
| Operating expenditures | <u>32,270</u> | <u>29,606</u> | <u>2,664</u> |
| Total | <u>32,270</u> | <u>29,606</u> | <u>2,664</u> |
| Total environmental protection | <u>253,164</u> | <u>239,183</u> | <u>13,981</u> |

TOWN OF ELKIN, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|--|--------------------------------|----------------------|---------------------------------------|
| Cultural and Recreational: | | | |
| Recreation: | | | |
| Salaries and benefits | 434,645 | 429,549 | 5,096 |
| Operating expenditures | 295,140 | 276,452 | 18,688 |
| Purchased for resell | 12,500 | 11,514 | 986 |
| Capital outlay | 132,400 | 127,673 | 4,727 |
| Total | <u>874,685</u> | <u>845,188</u> | <u>29,497</u> |
| Library: | | | |
| Operating expenditures | 115,874 | 131,977 | (16,103) |
| Capital outlay | 16,500 | - | 16,500 |
| Total | <u>132,374</u> | <u>131,977</u> | <u>397</u> |
| Total cultural and recreational | <u>1,007,059</u> | <u>977,165</u> | <u>29,894</u> |
| Debt Service: | | | |
| Principal retirement | 159,825 | 159,826 | (1) |
| Interest and fees | 8,261 | 8,261 | - |
| Total | <u>168,086</u> | <u>168,087</u> | <u>(1)</u> |
| Total expenditures | <u>5,659,924</u> | <u>5,486,343</u> | <u>173,581</u> |
| Revenues over (under) expenditures | <u>(307,122)</u> | <u>38,694</u> | <u>345,816</u> |
| Other Financing Sources (Uses): | | | |
| Transfer to capital projects funds | (142,860) | (100,000) | 42,860 |
| Appropriated fund balance | 449,982 | - | (449,982) |
| Total other financing sources (uses) | <u>307,122</u> | <u>(100,000)</u> | <u>(407,122)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>(61,306)</u> | <u>\$ (61,306)</u> |
| Fund Balance: | | | |
| Beginning of year - July 1 | | <u>2,796,486</u> | |
| End of year - June 30 | | <u>\$ 2,735,180</u> | |

TOWN OF ELKIN, NORTH CAROLINA

MAJOR CAPITAL PROJECT FUND

AIRPORT CAPITAL PROJECTS ORDINANCE FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2019

| | | Actual | | | |
|--|--------------------------|------------------|------------------|------------------|------------------------|
| | Project Authorization | Prior Years | Current Year | Total to Date | Variance Over/Under |
| Revenues: | | | | | |
| Restricted intergovernmental revenues: | | | | | |
| DOT Aviation grants | \$ 4,797,986 | \$ 3,232,630 | \$ 327,682 | \$ 3,560,312 | \$ (1,237,674) |
| State Aid to Airport Block grant | 750,000 | - | - | - | (750,000) |
| Total revenues | <u>5,547,986</u> | <u>3,232,630</u> | <u>327,682</u> | <u>3,560,312</u> | <u>(1,987,674)</u> |
| Expenditures: | | | | | |
| Capital outlay | <u>6,684,510</u> | <u>3,418,318</u> | <u>339,876</u> | <u>3,758,194</u> | <u>2,926,316</u> |
| Total expenditures | <u>6,684,510</u> | <u>3,418,318</u> | <u>339,876</u> | <u>3,758,194</u> | <u>2,926,316</u> |
| Revenues over (under) expenditures | <u>(1,136,524)</u> | <u>(185,688)</u> | <u>(12,194)</u> | <u>(197,882)</u> | <u>938,642</u> |
| Other Financing Sources (Uses): | | | | | |
| Contributions: | | | | | |
| Transfers from (to) General Fund: | | | | | |
| Operating transfers from General Fund | 1,136,524 | 390,786 | 100,000 | 490,786 | (645,738) |
| Operating transfers (to) General Fund | - | (204,445) | - | (204,445) | (204,445) |
| Total other financing sources (uses) | <u>1,136,524</u> | <u>186,341</u> | <u>100,000</u> | <u>286,341</u> | <u>(850,183)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ 653</u> | <u>\$ 87,806</u> | <u>\$ 88,459</u> | <u>\$ 88,459</u> |

TOWN OF ELKIN, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS
 COMBINING BALANCE SHEET
 JUNE 30, 2019

| | Nonmajor | | |
|---------------------------------------|---------------------------------------|---|--|
| | Special Revenue Fund | Capital Project Fund | Total Nonmajor Governmental Funds |
| | Municipal Service District Fund | Workforce Center Capital Project Ordinance Fund | |
| Assets: | | | |
| Cash and investments | \$ 19,979 | \$ - | \$ 19,979 |
| Due from other funds | - | 220,617 | 220,617 |
| Total assets | <u>\$ 19,979</u> | <u>\$ 220,617</u> | <u>\$ 240,596</u> |
| Liabilities and Fund Balances: | | | |
| Liabilities: | | | |
| Due to other funds | \$ 3,455 | \$ - | \$ 3,455 |
| Total liabilities | <u>3,455</u> | <u>-</u> | <u>3,455</u> |
| Fund Balances: | | | |
| Restricted for: | | | |
| Stabilization by state statute | - | 220,617 | 220,617 |
| Economic and physical development | 16,524 | - | 16,524 |
| Total fund balances | <u>16,524</u> | <u>220,617</u> | <u>237,141</u> |
| Total liabilities and fund balances | <u>\$ 19,979</u> | <u>\$ 220,617</u> | <u>\$ 240,596</u> |

TOWN OF ELKIN, NORTH CAROLINA

NONMAJOR GOVERNMENTAL FUNDS

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2019

| | Nonmajor | | |
|-----------------------------------|---------------------------------------|---|--|
| | Special Revenue Fund | Capital Project Fund | Total Nonmajor Governmental Funds |
| | Municipal Service District Fund | Workforce Center Capital Project Ordinance Fund | |
| Revenues: | | | |
| Ad valorem taxes | \$ 13,316 | \$ - | \$ 13,316 |
| Total revenues | 13,316 | - | 13,316 |
| Expenditures: | | | |
| Economic and physical development | 9,040 | - | 9,040 |
| Total expenditures | 9,040 | - | 9,040 |
| Net change in fund balances | 4,276 | - | 4,276 |
| Fund Balances: | | | |
| Beginning of year - July 1 | 12,248 | 220,617 | 232,865 |
| End of year - June 30 | \$ 16,524 | \$ 220,617 | \$ 237,141 |

TOWN OF ELKIN, NORTH CAROLINA

MUNICIPAL SERVICE DISTRICT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|--|-----------------|------------------|--------------------------------|
| Revenues: | | | |
| Ad valorem taxes | \$ 14,500 | \$ 13,316 | \$ (1,184) |
| Total revenues | <u>14,500</u> | <u>13,316</u> | <u>(1,184)</u> |
| Expenditures: | | | |
| Economic and physical development | <u>26,748</u> | <u>9,040</u> | <u>17,708</u> |
| Total expenditures | <u>26,748</u> | <u>9,040</u> | <u>17,708</u> |
| Revenues over (under) expenditures | <u>(12,248)</u> | <u>4,276</u> | <u>16,524</u> |
| Other Financing Sources (Uses): | | | |
| Appropriated fund balance | <u>12,248</u> | <u>-</u> | <u>(12,248)</u> |
| Total other financing sources (uses) | <u>12,248</u> | <u>-</u> | <u>(12,248)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>4,276</u> | <u>\$ 4,276</u> |
| Fund Balance: | | | |
| Beginning of year - July 1 | | <u>12,248</u> | |
| End of year - June 30 | | <u>\$ 16,524</u> | |

TOWN OF ELKIN, NORTH CAROLINA

WORKFORCE CENTER CAPITAL PROJECT ORDINANCE FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2019

| | | Actual | | | |
|--|--------------------------|----------------|-----------------|------------------|------------------------|
| | Project Authorization | Prior Years | Current Year | Total to Date | Variance Over/Under |
| Revenues: | | | | | |
| Restricted intergovernmental revenues: | | | | | |
| Chatham Foundation | \$ 300,000 | \$ 300,000 | \$ - | \$ 300,000 | \$ - |
| Golden Leaf | 200,000 | 200,000 | - | 200,000 | - |
| State Energy EEDBG grant | 200,000 | 200,000 | - | 200,000 | - |
| Yadkin Valley Bank | 50,000 | 50,000 | - | 50,000 | - |
| NC Rural Center (NCSTEP) | 42,500 | 42,500 | - | 42,500 | - |
| Hillsdale Foundation | 25,000 | 25,000 | - | 25,000 | - |
| BB&T | 25,000 | 25,000 | - | 25,000 | - |
| Kulynych Family Foundation | 2,000 | 2,000 | - | 2,000 | - |
| Duke Energy Foundation | 12,315 | 12,315 | - | 12,315 | - |
| Lowe's companies | 25,000 | 25,000 | - | 25,000 | - |
| Total revenues | 881,815 | 881,815 | - | 881,815 | - |
| Expenditures: | | | | | |
| Capital outlay | 1,092,000 | 1,091,242 | - | 1,091,242 | 758 |
| Total expenditures | 1,092,000 | 1,091,242 | - | 1,091,242 | 758 |
| Revenues over (under) expenditures | (210,185) | (209,427) | - | (209,427) | 758 |
| Other Financing Sources (Uses): | | | | | |
| Operating transfers from General Fund | 210,185 | 430,044 | - | 430,044 | 219,859 |
| Total other financing sources (uses) | 210,185 | 430,044 | - | 430,044 | 219,859 |
| Net change in fund balance | \$ - | \$ 220,617 | \$ - | \$ 220,617 | \$ 220,617 |

TOWN OF ELKIN, NORTH CAROLINA

**WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2019**

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|----------------------------------|------------------|------------------|--------------------------------|
| Revenues: | | | |
| Operating revenues: | | | |
| Water sales and sewer charges | \$ 1,327,883 | \$ 1,383,497 | \$ 55,614 |
| Water and sewer connections | 5,000 | 7,100 | 2,100 |
| Reconnection and late fees | 38,000 | 38,618 | 618 |
| Miscellaneous | 16,322 | 53,084 | 36,762 |
| Total operating revenues | <u>1,387,205</u> | <u>1,482,299</u> | <u>95,094</u> |
| Non-operating revenues: | | | |
| Contribution from YVSA | 531,469 | 530,744 | (725) |
| Interest earnings | 2,136 | 8,267 | 6,131 |
| Total non-operating revenues | <u>533,605</u> | <u>539,011</u> | <u>5,406</u> |
| Total revenues | <u>1,920,810</u> | <u>2,021,310</u> | <u>100,500</u> |
| Expenditures: | | | |
| Operating expenditures: | | | |
| Non-departmental: | | | |
| Salaries | 2,003 | 1,908 | 95 |
| Operating expenditures | 85,745 | 65,437 | 20,308 |
| Capital outlay | 272,735 | - | 272,735 |
| Total non-departmental | <u>360,483</u> | <u>67,345</u> | <u>293,138</u> |
| Administration and billing: | | | |
| Salaries and employee benefits | 50,476 | 50,063 | 413 |
| Operating expenditures | 20,000 | 19,341 | 659 |
| Total administration and billing | <u>70,476</u> | <u>69,404</u> | <u>1,072</u> |
| Water operations: | | | |
| Salaries and employee benefits | 190,597 | 192,857 | (2,260) |
| Operating expenditures | 687,785 | 657,337 | 30,448 |
| Capital outlay | 373,000 | 95,239 | 277,761 |
| Total water operations | <u>1,251,382</u> | <u>945,433</u> | <u>305,949</u> |
| Debt service: | | | |
| Principal | 137,495 | 137,495 | - |
| Interest and fees | 32,068 | 32,068 | - |
| Total debt service | <u>169,563</u> | <u>169,563</u> | <u>-</u> |
| Contingency | <u>68,906</u> | <u>-</u> | <u>(68,906)</u> |
| Total operating expenditures | <u>1,920,810</u> | <u>1,251,745</u> | <u>669,065</u> |

TOWN OF ELKIN, NORTH CAROLINA

**WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2019**

| | <u>Budget</u> | <u>Actual</u> | <u>Variance Over/Under</u> |
|--|---------------|-------------------|--------------------------------|
| Revenues over (under) expenditures | <u>\$ -</u> | <u>\$ 769,565</u> | <u>\$ 769,565</u> |
| Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual: | | | |
| Revenues over (under) expenditures | | \$ 769,565 | |
| Reconciling items: | | | |
| Principal retirement | | 137,495 | |
| Capital outlay | | 95,239 | |
| Change in accrued vacation pay | | 209 | |
| Depreciation | | (225,355) | |
| Decrease in long-term note receivable YVSA | | (137,495) | |
| Change in net position | | <u>\$ 639,658</u> | |

TOWN OF ELKIN, NORTH CAROLINA

ELKIN RAW WATER SYSTEM IMPROVEMENTS

WATER CAPITAL PROJECT FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2019

| | | Actual | | | |
|--|--------------------------|----------------|--------------------|--------------------|------------------------|
| | Project Authorization | Prior Years | Current Year | Total to Date | Variance Over/Under |
| Expenditures: | | | | | |
| Capital outlay | \$ 1,737,230 | \$ - | \$ 1,539,350 | \$ 1,539,350 | \$ 197,880 |
| Total expenditures | <u>1,737,230</u> | <u>-</u> | <u>1,539,350</u> | <u>1,539,350</u> | <u>197,880</u> |
| Revenues over (under) expenditures | <u>(1,737,230)</u> | <u>-</u> | <u>(1,539,350)</u> | <u>(1,539,350)</u> | <u>197,880</u> |
| Other Financing Sources (Uses): | | | | | |
| Loan proceeds | <u>1,737,230</u> | <u>-</u> | <u>1,551,438</u> | <u>1,551,438</u> | <u>(185,792)</u> |
| Total other financing sources (uses) | <u>1,737,230</u> | <u>-</u> | <u>1,551,438</u> | <u>1,551,438</u> | <u>(185,792)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 12,088</u> | <u>\$ 12,088</u> | <u>\$ 12,088</u> |

TOWN OF ELKIN, NORTH CAROLINA**AGENCY FUND****STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED JUNE 30, 2019**

| | <u>Balance</u> <u>July 1, 2018</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance</u> <u>June 30, 2019</u> |
|------------------------------|---|-------------------------|--------------------------|--|
| Firemen's Retirement: | | | | |
| Assets: | | | | |
| Cash and cash equivalents | \$ <u>27,504</u> | \$ <u>5,964</u> | \$ <u>(9,145)</u> | \$ <u>24,323</u> |
| Liabilities: | | | | |
| Intergovernmental payable | \$ <u>27,504</u> | \$ <u>5,964</u> | \$ <u>(9,145)</u> | \$ <u>24,323</u> |

TOWN OF ELKIN, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE

JUNE 30, 2019

| Fiscal Year | Uncollected Balance July 1, 2018 | Additions | Collections and Credits | Uncollected Balance June 30, 2019 |
|---|---|---------------------|------------------------------------|--|
| 2018-2019 | \$ - | \$ 2,651,337 | \$ 2,588,167 | \$ 63,170 |
| 2017-2018 | 68,955 | | 16,628 | 52,327 |
| 2016-2017 | 50,736 | - | 10,987 | 39,749 |
| 2015-2016 | 39,978 | - | 6,221 | 33,757 |
| 2014-2015 | 29,583 | - | 9,045 | 20,538 |
| 2013-2014 | 15,832 | - | 378 | 15,454 |
| 2012-2013 | 12,353 | - | 611 | 11,742 |
| 2011-2012 | 8,351 | - | 615 | 7,736 |
| 2010-2011 | 9,233 | - | 696 | 8,537 |
| 2009-2010 | 8,057 | - | 1,595 | 6,462 |
| 2008-2009 | 5,713 | - | 5,713 | - |
| Total | <u>248,791</u> | <u>2,651,337</u> | <u>2,640,656</u> | <u>259,472</u> |
| Plus uncollected taxes on annually registered vehicles: | | | | |
| 2018-2019 | - | 172,802 | 172,802 | - |
| Prior years | <u>7,786</u> | <u>-</u> | <u>167</u> | <u>7,619</u> |
| Total | <u>7,786</u> | <u>172,802</u> | <u>172,969</u> | <u>7,619</u> |
| Total | <u>\$ 256,577</u> | <u>\$ 2,824,139</u> | <u>\$ 2,813,625</u> | 267,091 |
| Taxes receivable, MSD | | | | 1,593 |
| Less: Allowance for ad valorem taxes receivable | | | | <u>(111,582)</u> |
| Ad valorem taxes receivable, net | | | | <u>\$ 157,102</u> |
| Reconcilement with Revenues: | | | | |
| Taxes - ad valorem, General Fund | | | | \$ 2,755,075 |
| Taxes - ad valorem, MSD | | | | <u>13,316</u> |
| Taxes - ad valorem, total | | | | <u>2,768,391</u> |
| Reconciling items: | | | | |
| Penalties and interest | | | | (22,112) |
| Other adjustments | | | | (16,869) |
| Discounts, releases, and refunds | | | | 78,502 |
| Amounts written off | | | | <u>5,713</u> |
| Total reconciling items | | | | <u>45,234</u> |
| Total collections and credits | | | | <u>\$ 2,813,625</u> |

TOWN OF ELKIN, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY
FOR THE YEAR ENDED JUNE 30, 2019

| | Town-Wide | | | Total Levy | |
|---|-----------------------|------------|---------------------|--|---------------------------------|
| | Property Valuation | Rate | Total Levy | Property Excluding Registered Motor Vehicles | Registered Motor Vehicles |
| Original Levy: | | | | | |
| Property taxed at current year's rate | \$ 482,057,091 | \$ 0.00550 | \$ 2,651,314 | \$ 2,651,314 | \$ - |
| Motor vehicles taxed at prior year's rate | 31,418,545 | 0.00550 | 172,802 | - | 172,802 |
| Total | <u>513,475,636</u> | | <u>2,824,116</u> | <u>2,651,314</u> | <u>172,802</u> |
| Discoveries | <u>727,091</u> | 0.00550 | <u>3,999</u> | <u>3,999</u> | <u>-</u> |
| Releases | <u>(722,909)</u> | 0.00550 | <u>(3,976)</u> | <u>(3,976)</u> | <u>-</u> |
| Total | <u>4,182</u> | | <u>23</u> | <u>23</u> | <u>-</u> |
| Total property valuation | <u>\$ 513,479,818</u> | | | | |
| Net Levy | | | 2,824,139 | 2,651,337 | 172,802 |
| Uncollected taxes at June 30, 2019 | | | <u>63,170</u> | <u>63,170</u> | <u>-</u> |
| Current Year Taxes Collected | | | <u>\$ 2,760,969</u> | <u>\$ 2,588,167</u> | <u>\$ 172,802</u> |
| Current Levy Collection Percentage | | | <u>97.76%</u> | <u>97.62%</u> | <u>100.00%</u> |

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Internal Control Over Financial Reporting And On Compliance And Other Matters Based On An Audit of Financial Statements Performed In Accordance With Government Auditing Standards

Independent Auditor's Report

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable of the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Elkin, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated February 17, 2020. Our report includes a reference to other auditors who audited the financial statements of the Yadkin Valley ABC Board and the Town of Elkin Tourism Development Authority, as described in our report on the Town of Elkin's financial statements. The financial statements of the Yadkin Valley ABC Board and the Town of Elkin Tourism Development Authority were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Elkin'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 Town of Elkin's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

Our consideration of internal control was for 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 have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings, Responses, and Questioned Costs, as item 2019-001 that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Elkin's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Elkin's Response to Finding

The Town of Elkin's response to the finding identified in our audit is described in the accompanying Schedule of Findings, Responses, and Questioned Costs. The Town of Elkin's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 result 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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
February 17, 2020

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"A Professional Association of Certified Public Accountants and Management Consultants"

Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; In Accordance With Uniform Guidance And The State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Elkin, North Carolina's, 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 Town of Elkin's major federal programs for the year ended June 30, 2019. The Town of Elkin's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses, and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the 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 Town of Elkin'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 non-compliance 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 Town of Elkin'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 Town of Elkin's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Elkin complied, in all material respects, with the 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, 2019.

Report on Internal Control Over Compliance

Management of the Town of Elkin 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 Town of Elkin's internal control over compliance with the requirements that could have a direct and material effect on each major federal program in order to determine our auditing procedures that are appropriate in the circumstances for the purpose of expressing our 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 Town of Elkin'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, non-compliance 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 combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material non-compliance 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. 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.

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.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P. A.
Hickory, North Carolina
February 17, 2020

TOWN OF ELKIN, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

1. Summary of Auditor's Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X Yes No
- Significant deficiency(ies) identified? Yes X None reported

Non-compliance material to financial
statements noted?

 Yes X No

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? Yes X No
- Significant deficiency(ies) identified? Yes X None reported

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

Unmodified

Any audit findings disclosed that are
required to be reported in accordance with 2
CFR 200.516(a)?

 Yes X No

Identification of major federal programs:

Program Name

Drinking Water State Revolving Fund
Cluster

CFDA

66.468

Dollar threshold used to distinguish
between Type A and Type B programs

\$750,000

Auditee qualified as low-risk auditee?

 Yes X No

TOWN OF ELKIN, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2019

2. Findings Related to the Audit of the Basic Financial Statements

Finding 2019-001

Material Weakness

Criteria: Management should have a system of internal controls that limits the same personnel from having access to assets and having access to the general ledger and reducing the likelihood of errors in financial reporting.

Condition: The Town has one person responsible for preparing payroll input, reviewing the payroll journals from the payroll system and finalizing each payroll. The same person performs human resources duties. Controls over journals entries have been designed but not properly implemented. Journal entries are being entered without the proper approval and review.

Effect: Having one employee perform both payroll and human resource functions without someone else reviewing their work increases the likelihood that transactions involving personnel files and payroll could be mishandled. Lack of proper implementation of internal control policies greatly increases the risk of an error or irregularity going undetected and can result in improper financial reporting.

Cause: There are a limited number of personnel for certain functions. The Town's internal control system with respect to journal entries is not implemented.

Identification of Repeat Finding: This is a repeat finding from the immediate previous audit, 2018-001.

Recommendation: This combination of duties significantly increases the chances of an error or irregularity going undetected. Some of these functions should be segregated among other employees to protect the assets of the Town. At a minimum, a staff member who does not prepare the payroll should review and finalize it. Access to the personnel files and payroll functions should be separated. The Town should strengthen the internal controls over journal entries function, limit duties and general ledger write-access to certain individuals as much as possible to implement segregation of duties, and implement an overall review process for journal entries on a regular basis.

Name of Contact Person: John Holcomb, Finance Director

Views of Responsible Officials and Corrective Action Plan: Management concurs with the condition noted above. Please refer to the Corrective Action Plan of this report.

3. Findings Related to the Audit of the Federal Awards

None reported.

TOWN MANAGER
J Brent Cornelison

MAYOR
Samuel D Bishop

TOWN ATTORNEY
Raymond A Parker



COMMISSIONERS
Jeffrey C Eidson
William M Gwyn
Cicely C McCulloch
C Tommy Wheeler
Dr Skip Whitman

**CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2019**

2. Findings Related to the Audit of the Basic Financial Statements

Material Weakness

Finding 2019-001

Name of Contact Person: John Holcomb, Finance Director

Corrective Action: Management concurs with the condition noted. A staff member other than the payroll and journal entry preparer will review and approve prior to processing and posting.

Proposed Completion Date: The Board will implement the above procedure immediately.

TOWN OF ELKIN, NORTH CAROLINA
SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019

Finding: 2018-001

Status: Repeated as Finding 2019-001.

TOWN OF ELKIN, NORTH CAROLINA

**SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2019**

| Grantor/Pass-Through Grantor/Program Title | Federal CFDA Number | State Pass-Through or Grantor's Number | Federal (Direct and Pass-Through) Expenditures | State Expenditures | Passed-Through to Subrecipients |
|--|------------------------------------|---|---|-------------------------------|--|
| FEDERAL AWARDS: | | | | | |
| <u>U.S. Environmental Protection Agency</u> | | | | | |
| Passed through the North Carolina Department of Environmental Quality Division of Water Infrastructure: | | | | | |
| Drinking Water State Revolving Fund Cluster | | | | | |
| Capitalization Grants for Drinking Water State Revolving Funds | 66.468 | H-LRX-F-18-1905 | \$ 1,539,350 | \$ - | \$ - |
| Total Drinking Water State Revolving Funds Cluster | | | 1,539,350 | - | - |
| Total U.S. Environmental Protection Agency | | | 1,539,350 | - | - |
| <u>U.S. Department of Justice</u> | | | | | |
| Direct Program: | | | | | |
| Bulletproof Vest Partnership Program | 16.607 | | 2,029 | - | - |
| Total U.S. Department of Justice | | | 2,029 | - | - |
| <u>U.S. Department of Homeland Security</u> | | | | | |
| Direct Program: | | | | | |
| Federal Emergency Management Agency: | | | | | |
| Staffing for Adequate Fire and Emergency Response (SAFER) | 97.083 | EMW-2015-FF-00415 | 91,083 | - | - |
| Total U.S. Department of Homeland Security | | | 91,083 | - | - |
| <u>U.S. Department of Transportation</u> | | | | | |
| Passed through the North Carolina Department of Transportation | | | | | |
| Airport Improvement Program | 20.106 | 36237.54.13.1; 36237.54.11.1 | 91,930 | - | - |
| Total Federal Awards | | | 1,724,392 | - | - |
| STATE AWARDS: | | | | | |
| <u>N.C. Department of Transportation</u> | | | | | |
| Non-State System Street-Aid Allocation (Powell Bill) | | | - | 150,766 | - |
| Apron Expansion Design/Bid Phase Services | | 36244.68.4.1 | - | 21,114 | - |
| 200' Runway Safety Area Runway 7 End | | 36244.68.3.1 | - | 226,832 | - |
| Total N.C. Department of Transportation | | | - | 398,712 | - |
| Total State Awards | | | - | 398,712 | - |
| Total Federal and State Awards | | | \$ 1,724,392 | \$ 398,712 | \$ - |

Notes to the Schedule of Expenditures of Federal and State Financial Awards

Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and state grant activity of the Town of Elkin under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. The information in this SEFSA 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. Because the Schedule presents only a selected portion of the operations of the Town of Elkin, it is not intended to and does not present the financial position, changes in net position or cash flows of the Town of Elkin.

Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The Town has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.

Loans Outstanding

The Town of Elkin had the following loan balances outstanding at June 30, 2019 for loans that the grantor/pass-through grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of loans outstanding at June 30, 2019 consist of:

| Program Title | CFDA | Grantor's Number | Amount Outstanding |
|---|-------------|-----------------------------|-------------------------------|
| Capitalization Grants for Drinking Water State Revolving Fund | 66.468 | H-LRX-F-18-1905 | \$ 1,551,438 |

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