

**TOWN OF HIGHLANDS
NORTH CAROLINA**

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2019

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Mayor: Patrick Taylor

Town Commissioners: Donnie Calloway

John M. Dotson

Amy E. Patterson

Eric Pierson

Brian Stiehler

Finance Director: Rebecca Shuler

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TOWN OF HIGHLANDS, 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
Town Commissioners
Town of Highlands
Highlands, North Carolina

Report On the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Highlands, 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 of Highlands' 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 Town of Highlands ABC Board. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Highlands ABC Board, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Town of Highlands ABC Board were not audited in accordance with *Government Auditing Standards*.

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

and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Highlands, 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 Management's Discussion and Analysis, the Other Post-Employment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 consist 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 Highlands' basic financial statements. The combining and individual fund financial statements, budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules and other schedules are the responsibility of management and were derived from, and 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 report of the other auditors, the combining and individual fund financial statements, budgetary schedules and other schedules 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 October 15, 2019 on our consideration of the Town of Highlands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Highlands' 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 Highlands' internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, North Carolina
October 15, 2019

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Management's Discussion and Analysis

As management of the Town of Highlands, we offer readers of the Town of Highlands' financial statements this narrative overview and analysis of the financial activities of the Town of Highlands 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's financial statements, which follow this narrative.

Financial Highlights

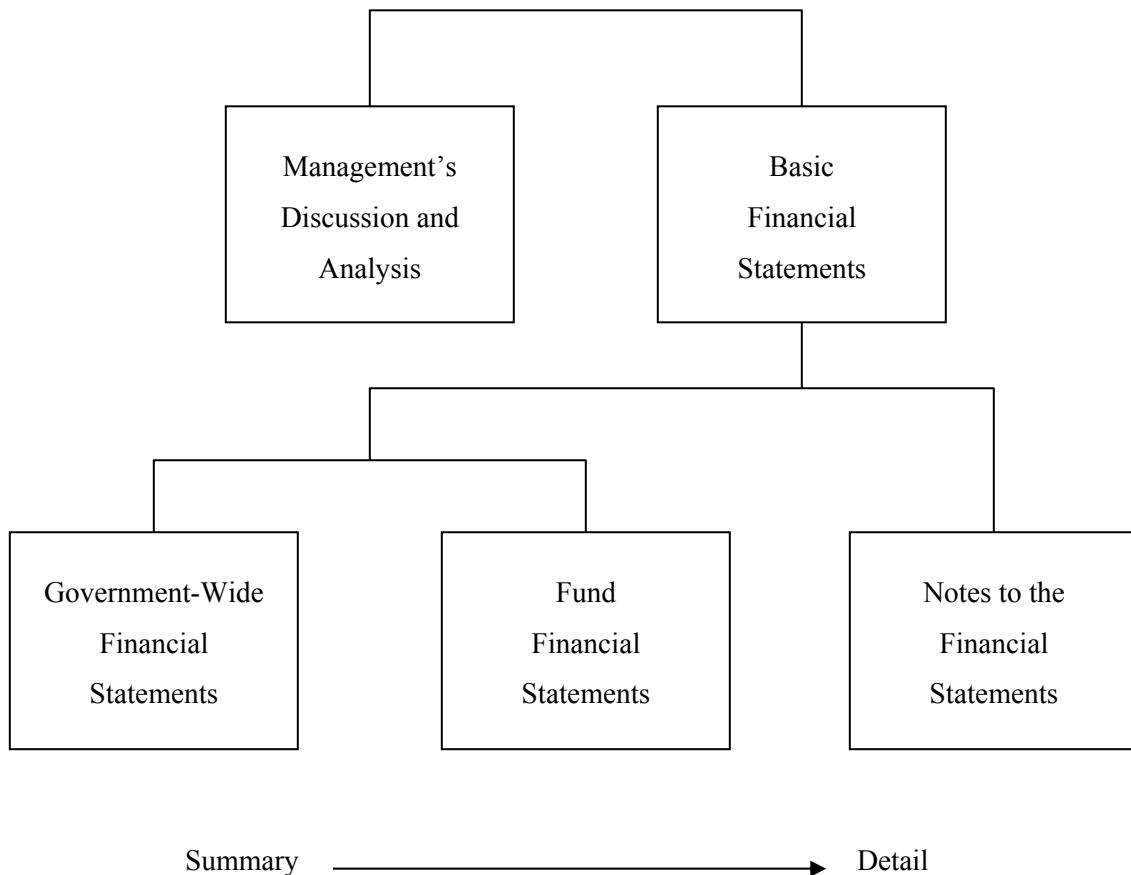
- The assets and deferred outflows of resources of the Town of Highlands exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$49,589,488 (*net position*).
- The government's total net position increased by \$154,177.
- As of the close of the current fiscal year, the Town of Highlands' governmental funds reported combined ending fund balances of \$9,449,688, an increase of \$4,552,537, in comparison with the prior year. Approximately 61 percent of this total amount, or \$5,763,818, is restricted or non-spendable.
- At the end of the current fiscal year, available fund balance for the General Fund was \$3,742,332, or 66 percent, of total General Fund expenditures.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Highlands' 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 Highlands.

Required Components of 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 K) 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 four parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, 3) the proprietary fund statements, and 4) the fiduciary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, **supplemental information** is provided to show details about the 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'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 total liabilities. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services, such as public safety, transportation, culture 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 services. These include the water and sewer, electric, and sanitation services offered by the Town of Highlands.

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

Fund Financial Statements

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Highlands, 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's budget ordinance. All of the funds of the Town of Highlands 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's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed, short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Highlands adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds. The Town of Highlands has one kind of proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Highlands uses enterprise funds to account for its water and sewer operations, its electric operations, and its sanitation services.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town of Highlands has two fiduciary funds: the Scholarship Fund and the Cemetery 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 K 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 Highlands' progress in funding its obligation to provide pension benefits and other post-employment benefits to its employees. Required supplementary information can be found beginning on Schedule A-1 of this report.

Interdependence with Other Entities. The Town depends on financial resources flowing from, or associated with, both the federal government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to federal and state laws and federal and state appropriations.

Town of Highlands' Net Position

Figure 2

| | Governmental | | Business-Type | | Total | |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| | Activities | | Activities | | | |
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Assets: | | | | | | |
| Current and other assets | \$ 9,809,234 | \$ 5,176,036 | \$ 8,885,656 | \$ 8,414,397 | \$ 18,694,890 | \$ 13,590,433 |
| Capital assets, net | 13,050,818 | 12,764,015 | 27,350,597 | 26,729,432 | 40,401,415 | 39,493,447 |
| Deferred outflows of resources | <u>674,250</u> | <u>369,814</u> | <u>386,798</u> | <u>230,978</u> | <u>1,061,048</u> | <u>600,792</u> |
| Total assets and deferred outflows of resources | <u>23,534,302</u> | <u>18,309,865</u> | <u>36,623,051</u> | <u>35,374,807</u> | <u>60,157,353</u> | <u>53,684,672</u> |
| Liabilities: | | | | | | |
| Liabilities | 6,378,031 | 1,342,529 | 4,152,967 | 2,868,117 | 10,530,998 | 4,210,646 |
| Deferred inflows of resources | <u>27,951</u> | <u>25,298</u> | <u>8,916</u> | <u>13,417</u> | <u>36,867</u> | <u>38,715</u> |
| Total liabilities and deferred inflows of resources | <u>6,405,982</u> | <u>1,367,827</u> | <u>4,161,883</u> | <u>2,881,534</u> | <u>10,567,865</u> | <u>4,249,361</u> |
| Net Position: | | | | | | |
| Net investment in capital assets | 12,928,654 | 12,580,769 | 26,183,950 | 25,469,436 | 39,112,604 | 38,050,205 |
| Restricted | 1,129,208 | 1,053,040 | - | - | 1,129,208 | 1,053,040 |
| Unassigned | <u>3,070,458</u> | <u>3,308,229</u> | <u>6,277,218</u> | <u>7,023,837</u> | <u>9,347,676</u> | <u>10,332,066</u> |
| Total net position | <u>\$ 17,128,320</u> | <u>\$ 16,942,038</u> | <u>\$ 32,461,168</u> | <u>\$ 32,493,273</u> | <u>\$ 49,589,488</u> | <u>\$ 49,435,311</u> |

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 the Town of Highlands exceeded liabilities and deferred inflows by \$49,589,488 as of June 30, 2019. The Town's net position increased by \$154,177 for the fiscal year ended June 30, 2019. The largest portion of net position (79%) reflects the Town's investment in capital assets (e.g. land, buildings, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Highlands uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the Town of Highlands' net position 2% represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$9,347,676 is unrestricted.

Several particular aspects of the Town's financial operations positively influenced the total governmental net position:

- Continued diligence in the collection of property taxes
- Diligence in collecting utility charges

Town of Highlands' Changes in Net Position

Figure 3

| | Governmental Activities | | Business-Type Activities | | Total | |
|---|------------------------------------|----------------------|-------------------------------------|----------------------|----------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Revenues: | | | | | | |
| Program revenues: | | | | | | |
| Charges for services | \$ 473,005 | \$ 391,628 | \$ 9,218,258 | \$ 9,198,489 | \$ 9,691,263 | \$ 9,590,117 |
| Operating grants and contributions | 776,330 | 1,069,590 | - | - | 776,330 | 1,069,590 |
| Capital grants and contributions | 553,500 | 957,860 | 29,150 | - | 582,650 | 957,860 |
| General revenues: | | | | | | |
| Property taxes | 2,914,902 | 2,884,664 | - | - | 2,914,902 | 2,884,664 |
| Other taxes | 1,172,472 | 1,089,297 | - | - | 1,172,472 | 1,089,297 |
| Unrestricted intergovernmental | 341,404 | 322,780 | - | - | 341,404 | 322,780 |
| Investment earnings, unrestricted | <u>98,943</u> | <u>32,010</u> | <u>86,686</u> | <u>17,735</u> | <u>185,629</u> | <u>49,745</u> |
| Total revenues | <u>6,330,556</u> | <u>6,747,829</u> | <u>9,334,094</u> | <u>9,216,224</u> | <u>15,664,650</u> | <u>15,964,053</u> |
| Expenses: | | | | | | |
| General government | 2,282,715 | 2,196,061 | - | - | 2,282,715 | 2,196,061 |
| Public safety | 1,773,398 | 1,770,968 | - | - | 1,773,398 | 1,770,968 |
| Transportation | 887,932 | 888,880 | - | - | 887,932 | 888,880 |
| Culture and recreation | 967,711 | 965,651 | - | - | 967,711 | 965,651 |
| Interest expense | 56,820 | 7,032 | - | - | 56,820 | 7,032 |
| Electric | - | - | 5,985,201 | 4,464,224 | 5,985,201 | 4,464,224 |
| Sanitation | - | - | 810,784 | 732,604 | 810,784 | 732,604 |
| Water and sewer | - | - | <u>2,745,912</u> | <u>3,207,390</u> | <u>2,745,912</u> | <u>3,207,390</u> |
| Total expenses | <u>5,968,576</u> | <u>5,828,592</u> | <u>9,541,897</u> | <u>8,404,218</u> | <u>15,510,473</u> | <u>14,232,810</u> |
| Change in net position before transfers | 361,980 | 919,237 | (207,803) | 812,006 | 154,177 | 1,731,243 |
| Transfers in (out) | <u>(175,698)</u> | <u>(236,606)</u> | <u>175,698</u> | <u>236,606</u> | <u>-</u> | <u>-</u> |
| Change in net position | <u>186,282</u> | <u>682,631</u> | <u>(32,105)</u> | <u>1,048,612</u> | <u>154,177</u> | <u>1,731,243</u> |
| Net Position: | | | | | | |
| Beginning of year - July 1 | 16,942,038 | 16,216,349 | 32,493,273 | 31,414,558 | 49,435,311 | 47,630,907 |
| Restatement | <u>-</u> | <u>43,058</u> | <u>-</u> | <u>30,103</u> | <u>-</u> | <u>73,161</u> |
| Beginning of year - July 1, as restated | <u>16,942,038</u> | <u>16,259,407</u> | <u>32,493,273</u> | <u>31,444,661</u> | <u>49,435,311</u> | <u>47,704,068</u> |
| End of year - June 30 | <u>\$ 17,128,320</u> | <u>\$ 16,942,038</u> | <u>\$ 32,461,168</u> | <u>\$ 32,493,273</u> | <u>\$ 49,589,488</u> | <u>\$ 49,435,311</u> |

Governmental Activities. Governmental activities increased the Town's net position by \$186,282. Key elements of this increase are as follows:

- Decreases in non-recurring costs relating to general government functions

Business-Type Activities. Business-type activities decreased the Town's net position by \$32,105. Key elements of this decrease are as follows:

- Increase in capital projects

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Highlands' 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 Highlands' financing requirements.

The General Fund is the chief operating fund of the Town of Highlands. At the end of the current fiscal year, the Town of Highland's fund balance available in the General Fund was \$3,742,332, while total fund balance reached \$4,128,764. The Town currently has available fund balance of 66% of General Fund expenditures while total fund balance represents 73% of the same amount.

At June 30, 2019, the governmental funds of the Town of Highlands reported a combined fund balance of \$9,499,688 with a net increase in fund balance of \$4,552,537. The key elements for this increase is primarily due to the issuance of long-term debt.

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 \$591,000 (10%). Amendments were necessary due to conservatism used in compiling the original budget.

Proprietary Funds. The Town of Highlands' proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year totaled \$1,700,615. The total increase in net position for the Water and Sewer Fund was \$1,256,773. This increase is due to an increase in transfers for the current year. Unrestricted net position of the Electric Fund at the end of the fiscal year totaled \$4,462,114. The total decrease in net position for the Electric Fund was \$1,274,329. The decrease was due to an increase in transfers for capital projects. Unrestricted net position of the Sanitation Fund at the end of the fiscal year totaled \$114,489. The total decrease in net position for the Sanitation Fund was \$14,549. This decrease was due to an increase in expenditures versus revenues.

Capital Assets and Debt Administration

Capital Assets. The Town of Highlands' capital assets for its governmental and business-type activities as of June 30, 2019 totals \$40,401,415 (net of accumulated depreciation). These assets include buildings, land, improvements, equipment, vehicles, infrastructure, plants and distribution systems, and construction in progress.

Major capital asset transactions during the year include:

- Buckhorn Water Tank & Pump Station
- Water Treatment Plant filter replacement
- Water and Wastewater Treatment Plant upgrades
- Paving improvements
- Community building upgrades
- Several new vehicle and equipment purchases in the administration department

Town of Highlands' Capital Assets (net of depreciation)

Figure 4

| | Governmental Activities | | Business-Type Activities | | Total | |
|-----------------------------------|----------------------------|----------------------|-----------------------------|----------------------|----------------------|----------------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Land | \$ 190,354 | \$ 190,354 | \$ 399,040 | \$ 399,040 | \$ 589,394 | \$ 589,394 |
| Buildings and improvements | 8,124,680 | 8,108,741 | - | - | 8,124,680 | 8,108,741 |
| Equipment and vehicles | 6,126,571 | 5,771,987 | 3,598,305 | 3,560,343 | 9,724,876 | 9,332,330 |
| Recreation facilities | 5,599,725 | 5,483,076 | - | - | 5,599,725 | 5,483,076 |
| Infrastructure | 2,740,653 | 2,463,440 | - | - | 2,740,653 | 2,463,440 |
| Plant and distribution systems | - | - | 36,831,221 | 36,389,207 | 36,831,221 | 36,389,207 |
| Construction in progress | 243,156 | - | 1,222,411 | 70,428 | 1,465,567 | 70,428 |
| Subtotal | 23,025,139 | 22,017,598 | 42,050,977 | 40,419,018 | 65,076,116 | 62,436,616 |
| Accumulated depreciation | (9,974,321) | (9,253,583) | (14,700,380) | (13,689,586) | (24,674,701) | (22,943,169) |
| Capital assets, net | <u>\$ 13,050,818</u> | <u>\$ 12,764,015</u> | <u>\$ 27,350,597</u> | <u>\$ 26,729,432</u> | <u>\$ 40,401,415</u> | <u>\$ 39,493,447</u> |

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

Long-Term Debt. As of June 30, 2019, the Town had no bonded debt outstanding. The Town did have installment debt as follows:

Town of Highlands' Long-Term Debt

Figure 5

| | Governmental Activities | | Business-Type Activities | | Total | |
|------------------|------------------------------------|-------------|-------------------------------------|--------------|--------------|--------------|
| | 2019 | 2018 | 2019 | 2018 | 2019 | 2018 |
| Installment debt | \$ 4,722,164 | \$ 183,246 | \$ 1,166,647 | \$ 1,259,996 | \$ 5,888,811 | \$ 1,443,242 |

The Town of Highlands' total debt increased by \$4,445,569 (308%) during the past fiscal year, primarily due to new debt for the Town's fiber build-out.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within the government's boundaries. The legal debt margin for the Town of Highlands is \$134,375,000.

Additional information regarding the Town of Highlands' long-term debt can be found in Note 2.B of this report.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities. The Town Manager's recommended operating budget for fiscal year 2019 was adopted by the Town Board on June 20, 2019. The fiscal year 2019 budget includes an Ad Valorem tax rate of \$.1565 per \$100. This will enable the Town of Highlands to maintain a revenue neutral tax rate, but does include a .015 earmarked for recreation capital projects, which is scheduled to sunset June 30th of 2020. The fiscal year 2019 budget also includes a Highlands Volunteer Fire Department tax rate of \$.03 per \$100. A 2.0% COLA adjustment for all full-time employees is included in the fiscal year 2019 budget. The Town will use any increases in revenues to finance programs currently in place and to cover any unanticipated increases in expenditures.

Business-Type Activities. The rates in the sanitation and electric funds rates remained the same. However, the rates in the water and sewer funds are increasing from a \$35.00 to \$36.00 base rate for the first 5,000 gallons and a \$5.00 to \$7.50 increase per every 1,000 gallon over the base charge of 5,000 gallon.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Director, Town of Highlands, P.O. Box 460, 210 North Fourth Street, Highlands, North Carolina 28741. You can also call (828) 526-2118, visit our website www.highlandsnc.org or send an email to rebecca.shuler@highlandsnc.org for more information.

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TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2019

| | Primary Government | | | Component Unit |
|---|-------------------------|--------------------------|---------------|-----------------------------|
| | Governmental Activities | Business-Type Activities | Total | Town of Highlands ABC Board |
| Assets: | | | | |
| Cash and investments | \$ 4,687,316 | \$ 7,173,608 | \$ 11,860,924 | \$ 490,253 |
| Restricted cash and investments | 4,712,145 | 50,528 | 4,762,673 | - |
| Taxes receivable, net | 15,691 | - | 15,691 | - |
| Accounts receivable, net | 359,472 | 1,102,950 | 1,462,422 | - |
| Prepaid items | - | - | - | 6,672 |
| Inventories | 34,610 | 558,570 | 593,180 | 369,649 |
| Capital assets: | | | | |
| Land and construction in progress | 433,510 | 1,621,451 | 2,054,961 | - |
| Other capital assets, net of depreciation | 12,617,308 | 25,729,146 | 38,346,454 | 146,466 |
| Total capital assets | 13,050,818 | 27,350,597 | 40,401,415 | 146,466 |
| Total assets | 22,860,052 | 36,236,253 | 59,096,305 | 1,013,040 |
| Deferred Outflows of Resources: | | | | |
| Pension deferrals | 674,046 | 386,666 | 1,060,712 | 31,618 |
| OPEB deferrals | 204 | 132 | 336 | - |
| Total deferred outflows of resources | 674,250 | 386,798 | 1,061,048 | 31,618 |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | 293,855 | 679,488 | 973,343 | 143,207 |
| Accrued interest payable | 51,663 | - | 51,663 | - |
| Liabilities payable from restricted assets: | | | | |
| Customer deposits | - | 50,528 | 50,528 | - |
| Non-current liabilities: | | | | |
| Net pension liability (LGERS) | 695,501 | 467,421 | 1,162,922 | 37,720 |
| Total pension liability (LEOSSA) | 409,918 | - | 409,918 | - |
| Total OPEB liability | 81,277 | 56,536 | 137,813 | - |
| Due in less than one year | 491,402 | 395,697 | 887,099 | - |
| Due in more than one year | 4,354,415 | 2,503,297 | 6,857,712 | - |
| Total liabilities | 6,378,031 | 4,152,967 | 10,530,998 | 180,927 |
| Deferred Inflows of Resources: | | | | |
| Pension deferrals | 21,440 | 4,702 | 26,142 | 612 |
| OPEB deferrals | 6,511 | 4,214 | 10,725 | - |
| Total deferred inflows of resources | 27,951 | 8,916 | 36,867 | 612 |
| Net Position: | | | | |
| Net investment in capital assets | 12,928,654 | 26,183,950 | 39,112,604 | 146,466 |
| Restricted for: | | | | |
| Stabilization for state statute | 359,472 | - | 359,472 | - |
| Streets | 112,145 | - | 112,145 | - |
| Fire protection | 657,591 | - | 657,591 | - |
| Capital improvements | - | - | - | 329,019 |
| Working capital | - | - | - | 59,642 |
| Unrestricted | 3,070,458 | 6,277,218 | 9,347,676 | 327,992 |
| Total net position | \$ 17,128,320 | \$ 32,461,168 | \$ 49,589,488 | \$ 863,119 |

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

TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

| | | Program Revenues | | |
|----------------------------------|----------------------|-----------------------------|---|---|
| | Expenses | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions |
| Functions/Programs: | | | | |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General government | \$ 2,282,715 | \$ 298,504 | \$ 194,054 | \$ - |
| Public safety | 1,773,398 | 6,375 | 527,127 | - |
| Transportation | 887,932 | - | 55,149 | - |
| Culture and recreation | 967,711 | 168,126 | - | 553,500 |
| Interest on long-term debt | 56,820 | - | - | - |
| Total governmental activities | <u>5,968,576</u> | <u>473,005</u> | <u>776,330</u> | <u>553,500</u> |
| Business-Type Activities: | | | | |
| Water and Sewer Fund | 2,745,912 | 2,267,304 | - | 29,150 |
| Sanitation Fund | 810,784 | 741,235 | - | - |
| Electric Fund | 5,985,201 | 6,209,719 | - | - |
| Total business-type activities | <u>9,541,897</u> | <u>9,218,258</u> | <u>-</u> | <u>29,150</u> |
| Total primary government | <u>\$ 15,510,473</u> | <u>\$ 9,691,263</u> | <u>\$ 776,330</u> | <u>\$ 582,650</u> |
| Component Unit: | | | | |
| Town of Highlands ABC Board | <u>\$ 1,951,515</u> | <u>\$ 2,047,529</u> | <u>\$ -</u> | <u>\$ -</u> |

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

TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

| | <u>Net Revenue (Expense) and Changes in Net Position</u> | | | <u>Component</u> |
|--------------------------------------|--|----------------------|----------------------|-------------------|
| | <u>Primary Government</u> | | | <u>Unit</u> |
| | <u>Governmental</u> | <u>Business-Type</u> | <u>Total</u> | <u>Town of</u> |
| | <u>Activities</u> | <u>Activities</u> | | <u>Highlands</u> |
| | | | | <u>ABC Board</u> |
| Functions/Programs: | | | | |
| Primary Government: | | | | |
| Governmental Activities: | | | | |
| General government | \$ (1,790,157) | \$ - | \$ (1,790,157) | |
| Public safety | (1,239,896) | - | (1,239,896) | |
| Transportation | (832,783) | - | (832,783) | |
| Culture and recreation | (246,085) | - | (246,085) | |
| Interest on long-term debt | (56,820) | - | (56,820) | |
| Total governmental activities | <u>(4,165,741)</u> | <u>-</u> | <u>(4,165,741)</u> | |
| Business-Type Activities: | | | | |
| Water and Sewer Fund | - | (449,458) | (449,458) | |
| Sanitation Fund | - | (69,549) | (69,549) | |
| Electric Fund | - | 224,518 | 224,518 | |
| Total business-type activities | <u>-</u> | <u>(294,489)</u> | <u>(294,489)</u> | |
| Total primary government | <u>(4,165,741)</u> | <u>(294,489)</u> | <u>(4,460,230)</u> | |
| Component Unit: | | | | |
| Town of Highlands ABC Board | | | | <u>\$ 96,014</u> |
| General Revenues: | | | | |
| Ad valorem taxes | 2,914,902 | - | 2,914,902 | - |
| Local option sales tax | 1,172,472 | - | 1,172,472 | - |
| Unrestricted intergovernmental | 341,404 | - | 341,404 | - |
| Investment earnings, unrestricted | 98,943 | 86,686 | 185,629 | 340 |
| Total general revenues | <u>4,527,721</u> | <u>86,686</u> | <u>4,614,407</u> | <u>340</u> |
| Transfers | (175,698) | 175,698 | - | - |
| Total general revenues and transfers | <u>4,352,023</u> | <u>262,384</u> | <u>4,614,407</u> | <u>340</u> |
| Change in net position | 186,282 | (32,105) | 154,177 | 96,354 |
| Net Position: | | | | |
| Beginning of year - July 1 | <u>16,942,038</u> | <u>32,493,273</u> | <u>49,435,311</u> | <u>766,765</u> |
| End of year - June 30 | <u>\$ 17,128,320</u> | <u>\$ 32,461,168</u> | <u>\$ 49,589,488</u> | <u>\$ 863,119</u> |

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

TOWN OF HIGHLANDS, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2019

| | <u>Major</u> | | <u>Non-Major</u> | <u>Total</u> |
|---|---------------------|------------------------------|-----------------------------|---------------------------|
| | <u>General Fund</u> | <u>Capital Projects Fund</u> | <u>Fire Department Fund</u> | <u>Governmental Funds</u> |
| Assets: | | | | |
| Cash and investments | \$ 3,855,727 | \$ 165,343 | \$ 666,246 | \$ 4,687,316 |
| Restricted cash and investments | 112,145 | 4,600,000 | - | 4,712,145 |
| Inventory | 34,610 | - | - | 34,610 |
| Taxes receivable, net | 15,691 | - | - | 15,691 |
| Accounts receivable, net | 351,822 | - | 7,650 | 359,472 |
| Total assets | <u>\$ 4,369,995</u> | <u>\$ 4,765,343</u> | <u>\$ 673,896</u> | <u>\$ 9,809,234</u> |
| Liabilities, Deferred Inflows of Resources, and Fund Balances: | | | | |
| Liabilities: | | | | |
| Accounts payable and accrued expenses | \$ 225,540 | \$ 59,660 | \$ 8,655 | \$ 293,855 |
| Total liabilities | <u>225,540</u> | <u>59,660</u> | <u>8,655</u> | <u>293,855</u> |
| Deferred Inflows of Resources: | | | | |
| Property taxes receivable | <u>15,691</u> | <u>-</u> | <u>-</u> | <u>15,691</u> |
| Fund Balances: | | | | |
| Non-spendable: | | | | |
| Inventory | 34,610 | - | - | 34,610 |
| Restricted: | | | | |
| Stabilization by state statute | 351,822 | - | 7,650 | 359,472 |
| Restricted for general government | - | 4,600,000 | - | 4,600,000 |
| Restricted for streets | 112,145 | - | - | 112,145 |
| Restricted for fire protection | - | - | 657,591 | 657,591 |
| Committed for general government | - | 105,683 | - | 105,683 |
| Unassigned | 3,630,187 | - | - | 3,630,187 |
| Total fund balances | <u>4,128,764</u> | <u>4,705,683</u> | <u>665,241</u> | <u>9,499,688</u> |
| Total liabilities, deferred inflows of resources, and fund balances | <u>\$ 4,369,995</u> | <u>\$ 4,765,343</u> | <u>\$ 673,896</u> | |
| Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different due to the following items: | | | | |
| Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds. | | | | 13,050,818 |
| Deferred inflows of resources in the governmental funds are used to offset accounts receivable not expected to be available within 90 days of year-end. These receivables are a component of net position in the Statement of Net Position. | | | | 15,691 |
| Total pension liability (LEOSSA) | | | | (409,918) |
| Net pension liability (LGRS) | | | | (695,501) |
| Total OPEB liability | | | | (81,277) |
| OPEB related deferrals | | | | (6,307) |
| Long-term liabilities, accrued interest, and compensated absences are not due and payable in the current period and, therefore, not reported in the funds. | | | | (4,897,480) |
| Pension related deferrals | | | | 652,606 |
| Net position of governmental activities, per Exhibit A | | | | <u>\$ 17,128,320</u> |

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

TOWN OF HIGHLANDS, NORTH CAROLINA

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

| | Major | | Non-Major | |
|---|---------------------|-----------------------|----------------------|---------------------|
| | General | Capital Projects Fund | Fire Department Fund | Total |
| Revenues: | | | | |
| Ad valorem taxes | \$ 2,919,545 | \$ - | \$ - | \$ 2,919,545 |
| Other taxes and licenses | 1,172,472 | - | - | 1,172,472 |
| Unrestricted intergovernmental revenues | 341,404 | - | - | 341,404 |
| Restricted intergovernmental revenues | 683,011 | - | 428,155 | 1,111,166 |
| Permits and fees | 79,720 | - | - | 79,720 |
| Sales and services | 386,910 | - | - | 386,910 |
| Investment earnings | 95,700 | 139 | 3,104 | 98,943 |
| Contributions | 6,758 | - | 17,852 | 24,610 |
| Miscellaneous | 194,054 | - | 6,375 | 200,429 |
| Total revenues | <u>5,879,574</u> | <u>139</u> | <u>455,486</u> | <u>6,335,199</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 2,215,650 | 93,156 | - | 2,308,806 |
| Public safety | 1,368,506 | - | 475,611 | 1,844,117 |
| Transportation | 1,166,474 | - | - | 1,166,474 |
| Culture and recreation | 821,328 | - | - | 821,328 |
| Debt service: | | | | |
| Principal | 61,082 | - | - | 61,082 |
| Interest | 5,157 | - | - | 5,157 |
| Total expenditures | <u>5,638,197</u> | <u>93,156</u> | <u>475,611</u> | <u>6,206,964</u> |
| Revenues over (under) expenditures | <u>241,377</u> | <u>(93,017)</u> | <u>(20,125)</u> | <u>128,235</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in (out) | (374,398) | 198,700 | - | (175,698) |
| Long-term debt issued | - | 4,600,000 | - | 4,600,000 |
| Total other financing sources (uses) | <u>(374,398)</u> | <u>4,798,700</u> | <u>-</u> | <u>4,424,302</u> |
| Net change in fund balances | (133,021) | 4,705,683 | (20,125) | 4,552,537 |
| Fund Balances: | | | | |
| Beginning of year - July 1 | <u>4,261,785</u> | <u>-</u> | <u>685,366</u> | <u>4,947,151</u> |
| End of year - June 30 | <u>\$ 4,128,764</u> | <u>\$ 4,705,683</u> | <u>\$ 665,241</u> | <u>\$ 9,499,688</u> |

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

TOWN OF HIGHLANDS, NORTH CAROLINA

**RECONCILIATION OF THE STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
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 due to the following items:

| | |
|--|-------------------|
| Net change in fund balances - total governmental funds (Exhibit D) | \$ 4,552,537 |
| Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds statement. | (4,643) |
| Compensated absences expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds statement. | 2,614 |
| Accrued interest is not due and payable in the current period and therefore is not reported in the governmental funds statement. | (51,663) |
| Change in deferred outflow - pension | 304,471 |
| Change in deferred inflows - pension | (199) |
| Change in net pension liability | (359,358) |
| Change in deferred outflow - OPEB | (35) |
| Change in deferred inflows - OPEB | (2,454) |
| Change in OPEB liability | (2,873) |
| Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets. | 1,098,166 |
| The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has an effect on net position. | (4,538,918) |
| Gain/(loss) on disposal of capital assets are reported in the Statement of Activities; however, proceeds from the sale of assets are not affected by gain/(loss) in the governmental funds statements. | (3,108) |
| Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement. | <u>(808,255)</u> |
| Change in net position of governmental activities (Exhibit B) | <u>\$ 186,282</u> |

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

TOWN OF HIGHLANDS, 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 |
|---|-------------------------|--------------------|---------------------|---------------------|
| | Original | Final | Actual | Over/Under |
| Revenues: | | | | |
| Ad valorem taxes | \$ 2,820,000 | \$ 2,820,000 | \$ 2,919,545 | \$ 99,545 |
| Other taxes and licenses | 900,000 | 941,000 | 1,172,472 | 231,472 |
| Unrestricted intergovernmental revenues | 250,000 | 290,000 | 341,404 | 51,404 |
| Restricted intergovernmental revenues | 650,000 | 650,000 | 683,011 | 33,011 |
| Permits and fees | 31,300 | 31,300 | 79,720 | 48,420 |
| Sales and services | 158,500 | 266,500 | 386,910 | 120,410 |
| Investment earnings | 5,000 | 5,000 | 95,700 | 90,700 |
| Contributions | 4,000 | 6,800 | 6,758 | (42) |
| Miscellaneous | 145,768 | 145,768 | 194,054 | 48,286 |
| Total revenues | <u>4,964,568</u> | <u>5,156,368</u> | <u>5,879,574</u> | <u>723,206</u> |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 2,178,225 | 2,536,225 | 2,215,650 | 320,575 |
| Public safety | 1,316,329 | 1,463,129 | 1,368,506 | 94,623 |
| Transportation | 1,259,558 | 1,294,558 | 1,166,474 | 128,084 |
| Culture and recreation | 891,730 | 942,730 | 821,328 | 121,402 |
| Debt service: | | | | |
| Principal | 66,239 | 61,082 | 61,082 | - |
| Interest | - | 5,157 | 5,157 | - |
| Total expenditures | <u>5,712,081</u> | <u>6,302,881</u> | <u>5,638,197</u> | <u>664,684</u> |
| Revenues over (under) expenditures | <u>(747,513)</u> | <u>(1,146,513)</u> | <u>241,377</u> | <u>1,387,890</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in (out) | (431,021) | (591,021) | (374,398) | 216,623 |
| Appropriated fund balance | 1,178,534 | 1,737,534 | - | (1,737,534) |
| Total other financing sources (uses) | <u>747,513</u> | <u>1,146,513</u> | <u>(374,398)</u> | <u>(1,520,911)</u> |
| Net change in fund balance | <u>\$ -</u> | <u>\$ -</u> | <u>(133,021)</u> | <u>\$ (133,021)</u> |
| Fund Balance: | | | | |
| Beginning of year - July 1 | | | <u>4,261,785</u> | |
| End of year - June 30 | | | <u>\$ 4,128,764</u> | |

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

TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019

| | Business-Type Activities | | | |
|---|--------------------------|---------------------|--------------------|----------------------|
| | Enterprise Funds | | | |
| | Water and Sewer Fund | Electric Fund | Sanitation Fund | Total |
| Assets: | | | | |
| Current assets: | | | | |
| Cash and investments | \$ 1,670,819 | \$ 5,396,845 | \$ 105,944 | \$ 7,173,608 |
| Restricted cash and investments | 4,969 | 45,559 | - | 50,528 |
| Inventory | 122,512 | 436,058 | - | 558,570 |
| Accounts receivable, net | 347,259 | 663,840 | 91,851 | 1,102,950 |
| Total current assets | <u>2,145,559</u> | <u>6,542,302</u> | <u>197,795</u> | <u>8,885,656</u> |
| Non-current assets: | | | | |
| Net pension asset | | | | |
| Capital assets: | | | | |
| Land and construction in progress | 1,621,451 | - | - | 1,621,451 |
| Other capital assets, net of depreciation | 24,426,882 | 1,051,314 | 250,950 | 25,729,146 |
| Capital assets, net | <u>26,048,333</u> | <u>1,051,314</u> | <u>250,950</u> | <u>27,350,597</u> |
| Total assets | <u>28,193,892</u> | <u>7,593,616</u> | <u>448,745</u> | <u>36,236,253</u> |
| Deferred Outflows of Resources: | | | | |
| Pension deferrals | 165,614 | 146,336 | 74,716 | 386,666 |
| OPEB deferrals | 56 | 50 | 26 | 132 |
| Total deferred outflows of resources | <u>165,670</u> | <u>146,386</u> | <u>74,742</u> | <u>386,798</u> |
| Liabilities: | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | 324,630 | 319,393 | 35,465 | 679,488 |
| Accrued vacation | 51,716 | 60,753 | 19,878 | 132,347 |
| Current portion of long-term debt | 93,350 | 170,000 | - | 263,350 |
| Liabilities payable from restricted assets: | | | | |
| Customer deposits | 4,969 | 45,559 | - | 50,528 |
| Total current liabilities | <u>474,665</u> | <u>595,705</u> | <u>55,343</u> | <u>1,125,713</u> |
| Non-current liabilities: | | | | |
| Total OPEB liability | 24,875 | 21,865 | 9,796 | 56,536 |
| Net pension liability | 199,950 | 187,284 | 80,187 | 467,421 |
| Long-term debt | 1,073,297 | 1,430,000 | - | 2,503,297 |
| Total non-current liabilities | <u>1,298,122</u> | <u>1,639,149</u> | <u>89,983</u> | <u>3,027,254</u> |
| Total liabilities | <u>1,772,787</u> | <u>2,234,854</u> | <u>145,326</u> | <u>4,152,967</u> |
| Deferred Inflows of Resources: | | | | |
| Pension deferrals | 2,695 | (9,887) | 11,894 | 4,702 |
| OPEB deferrals | 1,779 | 1,607 | 828 | 4,214 |
| Total deferred inflows of resources | <u>4,474</u> | <u>(8,280)</u> | <u>12,722</u> | <u>8,916</u> |
| Net Position: | | | | |
| Net investment in capital assets | 24,881,686 | 1,051,314 | 250,950 | 26,183,950 |
| Unrestricted | <u>1,700,615</u> | <u>4,462,114</u> | <u>114,489</u> | <u>6,277,218</u> |
| Total net position | <u>\$ 26,582,301</u> | <u>\$ 5,513,428</u> | <u>\$ 365,439</u> | <u>\$ 32,461,168</u> |

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

TOWN OF HIGHLANDS, NORTH CAROLINA

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

| | Business-Type Activities | | | |
|---|--------------------------|------------------|--------------------|---------------|
| | Enterprise Funds | | | |
| | Water and Sewer Fund | Electric Fund | Sanitation Fund | Total |
| Operating Revenues: | | | | |
| Charges for services | \$ 2,266,323 | \$ 5,724,899 | \$ 741,235 | \$ 8,732,457 |
| Other operating revenues | 981 | 484,820 | - | 485,801 |
| Total operating revenues | 2,267,304 | 6,209,719 | 741,235 | 9,218,258 |
| Operating Expenses: | | | | |
| Operations | 1,904,850 | 4,664,976 | 761,530 | 7,331,356 |
| Depreciation | 841,062 | 120,478 | 49,254 | 1,010,794 |
| Total operating expenses | 2,745,912 | 4,785,454 | 810,784 | 8,342,150 |
| Operating income (loss) | (478,608) | 1,424,265 | (69,549) | 876,108 |
| Non-Operating Revenues (Expenses): | | | | |
| Loss on Coal Ash Settlement | - | (1,199,747) | - | (1,199,747) |
| Investment earnings | 11,867 | 74,819 | - | 86,686 |
| Total non-operating revenues | 11,867 | (1,124,928) | - | (1,113,061) |
| Income (loss) before transfers and capital contributions | (466,741) | 299,337 | (69,549) | (236,953) |
| Capital contributions | 29,150 | - | - | 29,150 |
| Transfers: | | | | |
| Transfer to/from General Fund | 175,698 | - | - | 175,698 |
| Transfers from Electric Fund | 1,518,666 | - | 55,000 | 1,573,666 |
| Transfer to Sanitation | - | (55,000) | - | (55,000) |
| Transfers to Water and Sewer Fund | - | (1,518,666) | - | (1,518,666) |
| Total transfers | 1,694,364 | (1,573,666) | 55,000 | 175,698 |
| Change in net position | 1,256,773 | (1,274,329) | (14,549) | (32,105) |
| Net Position: | | | | |
| Beginning of year - July 1 | 25,325,528 | 6,787,757 | 379,988 | 32,493,273 |
| End of year - June 30 | \$ 26,582,301 | \$ 5,513,428 | \$ 365,439 | \$ 32,461,168 |

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

TOWN OF HIGHLANDS, NORTH CAROLINA

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

| | Business-Type Activities | | | |
|---|--------------------------|---------------|-----------------|--------------|
| | Enterprise Funds | | | Total |
| | Water and Sewer Fund | Electric Fund | Sanitation Fund | |
| Cash Flows from Operating Activities: | | | | |
| Cash received from customers | \$ 2,242,737 | \$ 6,252,823 | \$ 738,571 | \$ 9,234,131 |
| Cash paid to or on behalf of employees | (827,467) | (765,278) | (398,091) | (1,990,836) |
| Customer deposits received | - | 1,153 | - | 1,153 |
| Cash paid for goods and services | (739,089) | (3,874,904) | (370,544) | (4,984,537) |
| Net cash provided (used) by operating activities | 676,181 | 1,613,794 | (30,064) | 2,259,911 |
| Cash Flows from Non-Capital Financing Activities: | | | | |
| Transfers in (out) | 1,694,364 | (1,573,666) | 55,000 | 175,698 |
| Net cash provided (used) by non-capital financing activities | 1,694,364 | (1,573,666) | 55,000 | 175,698 |
| Cash Flows from Capital and Related Financing Activities: | | | | |
| Acquisition and construction of capital assets | (1,631,959) | - | - | (1,631,959) |
| Debt principal | (93,349) | (314,680) | - | (408,029) |
| Federal and state grants | 29,150 | - | - | 29,150 |
| Net cash provided (used) by capital and related financing activities | (1,696,158) | (314,680) | - | (2,010,838) |
| Cash Flows from Investing Activities: | | | | |
| Interest on investments | 11,867 | 74,819 | - | 86,686 |
| Net increase (decrease) in cash and cash equivalents | 686,254 | (199,733) | 24,936 | 511,457 |
| Cash and Cash Equivalents: | | | | |
| Beginning of year - July 1 | 989,534 | 5,642,137 | 81,008 | 6,712,679 |
| End of year - June 30 | \$ 1,675,788 | \$ 5,442,404 | \$ 105,944 | \$ 7,224,136 |
| Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities: | | | | |
| Operating income (loss) | \$ (478,608) | \$ 1,424,265 | \$ (69,549) | \$ 876,108 |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation | 841,062 | 120,478 | 49,254 | 1,010,794 |
| Changes in assets and liabilities: | | | | |
| Increase (decrease) in net pension liability | 79,891 | 70,492 | 37,596 | 187,979 |
| (Increase) decrease in deferred outflows of resources for pensions | (66,233) | (58,440) | (31,168) | (155,841) |
| Increase (decrease) in deferred inflows of resources for pensions | (2,603) | (2,297) | (1,225) | (6,125) |
| Increase (decrease) in OPEB liability | 785 | 709 | 365 | 1,859 |
| (Increase) decrease in deferred outflows of resources for OPEB | 9 | 9 | 338 | 356 |
| Increase (decrease) in deferred inflows of resources for OPEB | 671 | 615 | 3 | 1,289 |
| (Increase) decrease in accounts receivable | (24,567) | 43,104 | (2,664) | 15,873 |
| (Increase) decrease in inventory | 79,658 | (55,333) | - | 24,325 |
| Increase (decrease) in accounts payable and accrued liabilities | 246,116 | 69,039 | (13,014) | 302,141 |
| Increase (decrease) in customer deposits | - | 1,153 | - | 1,153 |
| Net cash provided (used) by operating activities | \$ 676,181 | \$ 1,613,794 | \$ (30,064) | \$ 2,259,911 |

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

TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF FIDUCIARY NET POSITION

FIDUCIARY FUNDS

JUNE 30, 2019

| | <u>Private-Purpose Trust Funds</u> |
|----------------------------------|--|
| Assets: | |
| Cash and cash equivalents | \$ 1,133,369 |
| Accounts receivable | <u>242</u> |
| Total assets | <u>1,133,611</u> |
| Liabilities: | |
| Accounts payable | <u>3,196</u> |
| Net Position: | |
| Held in trust for other purposes | <u>\$ 1,130,415</u> |

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

TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019

| | Private-Purpose Trust Funds |
|---|--|
| Additions: | |
| Investment earnings | \$ 18,678 |
| Contributions | 105,580 |
| ABC profit distribution | 15,022 |
| Miscellaneous | <u>9,146</u> |
| Total additions | <u>148,426</u> |
| Deductions: | |
| Cemetery | 37,470 |
| Scholarship | <u>48,813</u> |
| Total deductions | <u>86,283</u> |
| Net increase (decrease) in fiduciary net position | 62,143 |
| Net Position: | |
| Beginning of year - July 1 | <u>1,068,272</u> |
| End of year - June 30 | <u>\$ 1,130,415</u> |

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

TOWN OF HIGHLANDS, 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 Highlands (the "Town") and its discretely presented component unit conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town is a municipal corporation, which is governed by an elected Mayor and a five-member Board of Commissioners. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

Component Unit - Town of Highlands ABC Board

The Town of Highlands' Alcoholic Beverage Control Board (the "ABC Board") is governed by a Board appointed by the Town's Board of Commissioners. In addition, the ABC Board is required by state statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Highlands ABC Board, PO Box 1345, 81 Highlands Plaza, Highlands, North Carolina 28741.

B. Basis of Presentation

Government-Wide Statements. The Statement of Net Position and the Statement of Activities display information about the primary government and its component unit. These statements include the financial activities of the overall government, except for 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.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

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, including its fiduciary 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 non-major funds.

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

The Town reports the following major governmental 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 that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and state-shared revenues. The primary expenditures are for public safety, street maintenance and construction, and general governmental services.

Capital Projects Fund

The Capital Projects Fund is used to account for financial resources to be used for the acquisition and construction of major capital facilities and general government asset improvements (other than those financed by the proprietary funds).

The Town reports the following nonmajor governmental fund:

Fire Department Fund

The Fire Department Fund is used to account for revenues and expenditures related to the provision of fire protection services.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

The Town reports all its enterprise funds as major.

Enterprise Funds

The enterprise funds are used to account for those operations that (a) are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges, or (b) where the governing body has decided that the periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

The Town has three enterprise funds: the Water and Sewer Fund, the Electric Fund, and the Sanitation Fund. The water and sewer capital projects are consolidated with the Water and Sewer Fund for financial reporting purposes.

The Town has one water and sewer capital project: the Consolidated Water and Sewer Capital project.

The Town reports the following fiduciary fund types:

Private-Purpose Trust Funds

Private-purpose trust funds are used to account for trust arrangements under which principal and income benefits individuals, private organizations, or other governments. The Town maintains two private-purpose trust funds: the Scholarship Fund and the Cemetery Fund. Under the terms of the trust, the scholarship committee, with the approval of the Town's Board, may expend annually the investment income and possibly all or a portion of the principal of the Scholarship Fund to graduates of Highlands High School who are furthering their education in colleges, universities, or vocational training schools. The Cemetery Fund allows the Town to collect perpetual fees, lot and marker fees, and other contributions for the maintenance of the Highlands Cemetery.

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. 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, entitlements, 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, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

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.

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 capital leases 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. 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 collected and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the state at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Macon County and then remitted to and distributed by the state. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All sales taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of

TOWN OF HIGHLANDS, NORTH CAROLINA

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

grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, the Fire Department Fund, and the enterprise funds. All annual appropriations lapse at the fiscal year-end. A project ordinance is adopted for the Capital Projects Fund and the Water and Sewer Capital Project Fund. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the department level for all annually budgeted funds and at the project level for multi-year funds. The Town Manager is authorized to transfer any amount within a department without amendment. Any revisions that alter the total expenditures of a department or fund require approval of the Town Commissioners. During the year, several amendments to the original budget were necessary, the effects of which were 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 and 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 interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, an SEC-registered (2a-7) government money market fund, and the NCCMT Term Portfolio's securities are valued at fair value.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Cash and Cash Equivalents

The Town pools monies 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 Cash

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. Fiber build-out funds are classified as restricted cash because it can be expended only for the purposes of attaining and maintaining equipment regarding the Fiber build-out project. 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:

| | |
|---|------------------|
| Fiber build-out (unspent debt proceeds) | \$ 4,600,000 |
| Powell Bill | <u>112,145</u> |
| Total governmental activities | <u>4,712,145</u> |

Business-Type Activities:

Water and Sewer Fund:

| | |
|-------------------|-------|
| Customer deposits | 4,969 |
|-------------------|-------|

Electric Fund:

| | |
|--------------------------------|---------------|
| Customer deposits | <u>45,559</u> |
| Total business-type activities | <u>50,528</u> |

| | |
|-----------------------|----------------------------|
| Total restricted cash | <u><u>\$ 4,762,673</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 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2018.

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 HIGHLANDS, 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 General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

The inventories of the Town's enterprise funds consist 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

The Town has adopted a minimum capitalization threshold of \$5,000. Capital assets are recorded at original cost. Purchased or constructed capital assets are reported at cost or estimated historical cost. 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. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and stormwater system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives is not capitalized.

Capital assets are depreciated on a straight-line basis over the following estimated useful lives:

| <u>Asset</u> | <u>Estimated Useful Lives</u> |
|----------------------------------|--|
| Buildings and other improvements | 15-50 years |
| Equipment and vehicles | 3-10 years |
| Plant and distributions systems | 35-50 years |
| Recreation facilities | 35-50 years |
| Infrastructure | 50 years |

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

Long-Term Obligations

In the government-wide financial statements and proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type Statement of Net Position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method, which 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 bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The vacation policy of the Town allows for the accumulation of vacation leave, up to 240 hours per employee as well as the accumulation of comp time, up to 80 hours per employee. 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 on a first-in, first-out basis. The portion of time 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. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Net Position/Fund Balances

Net Position

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 statutes.

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.

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

Restricted Fund Balance

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

Stabilization by State Statute – portion of fund balance that is not an available resource for appropriation in accordance with state law [G.S. 159-8(a)].

Restricted for General Government – represents the unspent proceeds of installment financing, restricted to the purpose for which the debt was issued.

Restricted for Fire Protection – portion of fund balance that is restricted for fire department operations in the Town.

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

Restricted net position on Exhibit A varies from restricted fund balance on Exhibit C by the amount of unspent debt proceeds of \$4,600,000, as of June 30, 2019.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Committed Fund Balance

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action of the Town's highest level of decision-making authority. The Town Council 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.

Committed for General Government – portion of fund balance that is committed for a town wide fiber network construction.

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 or other funds.

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.

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 | \$ 4,128,764 |
| Less: | |
| Inventory | 34,610 |
| Stabilization by state statute | <u>351,822</u> |
| Total available fund balance | <u><u>\$ 3,742,332</u></u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Defined Benefit Cost-Sharing Plans

For purposes of measuring net pension 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 Employee's 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's employer contributions are recognized when due and the Town 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.

F. 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.

2. Detail Notes On All Funds

A. Assets

Deposits

All the deposits of the Town 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 agents in the unit's name. 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, these deposits are considered to be held by the Town's agents in its 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. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits, but relies 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.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

At June 30, 2019, the Town's deposits had a carrying amount of \$17,752,850 and a bank balance of \$17,902,958. Of the bank balance, \$750,000 was covered by federal depository insurance, and \$17,152,958 was covered by collateral held under the Pooling Method. The Town also has cash on hand of \$300 at June 30, 2019.

Investments

At June 30, 2019 the Town of Highlands had \$3,816 invested with the North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

Receivables - Allowances for Doubtful Accounts

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 Fund | \$ 8,154 | \$ 24,691 | \$ 344,800 | \$ 377,645 |
| Special revenue funds | - | - | 7,650 | 7,650 |
| Allowance for doubtful accounts | (1,132) | (9,000) | - | (10,132) |
| Total governmental activities | <u>\$ 7,022</u> | <u>\$ 15,691</u> | <u>\$ 352,450</u> | <u>\$ 375,163</u> |
| Business-Type Activities: | | | | |
| Water and Sewer Fund | \$ 349,680 | \$ - | \$ 19,148 | \$ 368,828 |
| Electric Fund | 697,449 | - | 8,261 | 705,710 |
| Sanitation Fund | 94,183 | - | 5,210 | 99,393 |
| Total receivables | 1,141,312 | - | 32,619 | 1,173,931 |
| Allowance for doubtful accounts | (70,981) | - | - | (70,981) |
| Total business-type activities | <u>\$ 1,070,331</u> | <u>\$ -</u> | <u>\$ 32,619</u> | <u>\$ 1,102,950</u> |

Due from other governments consisted of the following:

Governmental Activities:

| | |
|-------------------------|---------------|
| Local option sales tax | 204,296 |
| Franchise tax | 73,044 |
| Sales tax reimbursement | 44,455 |
| Other taxes | <u>30,655</u> |
| Total | 352,450 |

Business-Type Activities:

| | |
|-------------------------|-------------------|
| Sales tax reimbursement | <u>32,619</u> |
| Total | <u>\$ 385,069</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Governmental Capital Assets

A summary of changes in the Town's governmental capital assets follows:

| | Balance | | | Balance |
|---------------------------------------|----------------------|-------------------|--------------------|----------------------|
| | July 1, 2018 | Increases | Decreases | June 30, 2019 |
| By Asset Type: | | | | |
| Non-Depreciable Assets: | | | | |
| Land | \$ 190,354 | \$ - | \$ - | \$ 190,354 |
| Construction in progress | - | 243,156 | - | 243,156 |
| Total non-depreciable assets | <u>190,354</u> | <u>243,156</u> | <u>-</u> | <u>433,510</u> |
| Depreciable Assets: | | | | |
| Building and improvements | 8,108,741 | 15,939 | - | 8,124,680 |
| Equipment and vehicles | 5,771,987 | 445,209 | (90,625) | 6,126,571 |
| Recreation facilities | 5,483,076 | 116,649 | - | 5,599,725 |
| Infrastructure | <u>2,463,440</u> | <u>277,213</u> | <u>-</u> | <u>2,740,653</u> |
| Total depreciable assets | <u>21,827,244</u> | <u>855,010</u> | <u>(90,625)</u> | <u>22,591,629</u> |
| Less Accumulated Depreciation: | | | | |
| Buildings and improvements | 2,715,640 | 174,463 | - | 2,890,103 |
| Equipment and vehicles | 2,709,275 | 381,095 | (87,517) | 3,002,853 |
| Recreation facilities | 3,209,566 | 129,434 | - | 3,339,000 |
| Infrastructure | <u>619,102</u> | <u>123,263</u> | <u>-</u> | <u>742,365</u> |
| Total accumulated depreciation | <u>9,253,583</u> | <u>\$ 808,255</u> | <u>\$ (87,517)</u> | <u>9,974,321</u> |
| Total depreciable assets, net | <u>12,573,661</u> | | | <u>12,617,308</u> |
| Capital assets, net | <u>\$ 12,764,015</u> | | | <u>\$ 13,050,818</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

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

Governmental Activities:

| | |
|------------------------|-------------------|
| General government | \$ 150,448 |
| Public safety | 197,156 |
| Transportation | 194,974 |
| Culture and recreation | <u>265,677</u> |
| Total | <u>\$ 808,255</u> |

Business-Type Activities:

| | |
|----------------------|---------------------|
| Water and Sewer Fund | \$ 841,062 |
| Electric Fund | 120,478 |
| Sanitation Fund | <u>49,254</u> |
| Total | <u>\$ 1,010,794</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Proprietary Capital Assets

The capital assets of the proprietary funds of the Town at June 30, 2019 are as follows:

| | <u>July 1, 2018</u> | <u>Increases</u> | <u>Decreases</u> | <u>June 30, 2019</u> |
|--|---------------------|-------------------|------------------|----------------------|
| Business-Type Activities: | | | | |
| Water and Sewer Fund: | | | | |
| Non-Depreciable Capital Assets: | | | | |
| Land | \$ 399,040 | \$ - | \$ - | \$ 399,040 |
| Construction in progress | <u>70,428</u> | <u>1,151,983</u> | <u>-</u> | <u>1,222,411</u> |
| Total non-depreciable capital assets | <u>469,468</u> | <u>1,151,983</u> | <u>-</u> | <u>1,621,451</u> |
| Depreciable Capital Assets: | | | | |
| Plant and distribution systems | 34,411,271 | 442,014 | - | 34,853,285 |
| Equipment and vehicles | <u>1,453,593</u> | <u>37,962</u> | <u>-</u> | <u>1,491,555</u> |
| Total depreciable capital assets | <u>35,864,864</u> | <u>479,976</u> | <u>-</u> | <u>36,344,840</u> |
| Less Accumulated Depreciation: | | | | |
| Plant and distribution systems | 10,279,199 | 746,752 | - | 11,025,951 |
| Equipment and vehicles | <u>797,697</u> | <u>94,310</u> | <u>-</u> | <u>892,007</u> |
| Total accumulated depreciation | <u>11,076,896</u> | <u>\$ 841,062</u> | <u>\$ -</u> | <u>11,917,958</u> |
| Total depreciable capital assets, net | <u>24,787,968</u> | | | <u>24,426,882</u> |
| Water and sewer capital assets, net | <u>25,257,436</u> | | | <u>26,048,333</u> |
| Electric Fund: | | | | |
| Depreciable Capital Assets: | | | | |
| Plant and distribution systems | 1,977,936 | \$ - | \$ - | 1,977,936 |
| Equipment and vehicles | <u>1,583,899</u> | <u>-</u> | <u>-</u> | <u>1,583,899</u> |
| Total depreciable capital assets | <u>3,561,835</u> | <u>-</u> | <u>-</u> | <u>3,561,835</u> |
| Less Accumulated Depreciation: | | | | |
| Plant and distribution systems | 1,235,543 | 34,116 | - | 1,269,659 |
| Equipment and vehicles | <u>1,154,500</u> | <u>86,362</u> | <u>-</u> | <u>1,240,862</u> |
| Total accumulated depreciation | <u>2,390,043</u> | <u>\$ 120,478</u> | <u>\$ -</u> | <u>2,510,521</u> |
| Electric capital assets, net | <u>1,171,792</u> | | | <u>1,051,314</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

| | <u>July 1, 2018</u> | <u>Increases</u> | <u>Decreases</u> | <u>June 30, 2019</u> |
|---|--------------------------|------------------|------------------|--------------------------|
| Sanitation Fund: | | | | |
| Depreciable Capital Assets: | | | | |
| Equipment and vehicles | <u>522,851</u> | <u>\$ -</u> | <u>\$ -</u> | <u>522,851</u> |
| Total depreciable capital assets | <u>522,851</u> | <u>-</u> | <u>-</u> | <u>522,851</u> |
| Less Accumulated Depreciation: | | | | |
| Equipment and vehicles | <u>222,647</u> | <u>49,254</u> | <u>-</u> | <u>271,901</u> |
| Total accumulated depreciation | <u>222,647</u> | <u>\$ 49,254</u> | <u>\$ -</u> | <u>271,901</u> |
| Sanitation capital assets, net | <u>300,204</u> | | | <u>250,950</u> |
| Business-type activities capital assets, net | <u>\$ 26,729,432</u> | | | <u>\$ 27,350,597</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 | \$ 13,050,818 | \$ 27,350,597 |
| Long-term debt | (4,722,164) | (1,166,647) |
| Add: unspent debt proceeds | <u>4,600,000</u> | <u>-</u> |
| Net investment in capital assets | <u>\$ 12,928,654</u> | <u>\$ 26,183,950</u> |

Construction Commitments

A summary of the remaining commitments on the Town's open construction projects is as follows:

| <u>Project</u> | <u>Remaining Commitment</u> |
|---------------------|-----------------------------|
| Buckhorn Water Tank | \$403,000 |
| Sagee Waterline | 876,000 |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

B. Liabilities

Payables

Payables at Exhibit A at June 30, 2019 were as follows:

| | <u>Vendors</u> | <u>Salaries and Benefits</u> | <u>Total</u> |
|----------------------------------|-------------------|----------------------------------|-------------------|
| Governmental Activities: | | | |
| General Fund | \$ 71,205 | \$ 154,335 | \$ 225,540 |
| Special revenue funds | 2,336 | 6,319 | 8,655 |
| Capital project funds | <u>59,660</u> | <u>-</u> | <u>59,660</u> |
| Total governmental activities | <u>\$ 133,201</u> | <u>\$ 160,654</u> | <u>\$ 293,855</u> |
| Business-Type Activities: | | | |
| Water and Sewer Fund | \$ 236,857 | \$ 87,773 | \$ 324,630 |
| Electric Fund | 227,415 | 91,978 | 319,393 |
| Sanitation Fund | <u>587</u> | <u>34,878</u> | <u>35,465</u> |
| Total business-type activities | <u>\$ 464,859</u> | <u>\$ 214,629</u> | <u>\$ 679,488</u> |

Pension Plan and Post-Employment Obligations

Local Government Employees' Retirement System

Plan Description. The Town of Highlands is a participating employer in the state-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing, multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employee's Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454, or at www.osc.nc.gov.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial 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 or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town 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 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 were \$271,116 for the year ended June 30, 2019.

Refunds of Contributions. The 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.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

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 \$1,162,922 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 a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town's proportion was 0.049%, which is an increase of 0.004% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$336,148. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 179,411 | \$ 6,020 |
| Changes of assumptions | 308,595 | - |
| Net difference between projected and actual earnings on pension plan investments | 159,635 | - |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 42,371 | 2,706 |
| Town contributions subsequent to the measurement date | 271,116 | - |
| Total | <u>\$ 961,128</u> | <u>\$ 8,726</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

The \$271,116 reported as deferred outflows of resources related to pensions resulting from the 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 inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

| Year Ending | |
|--------------------|-------------------|
| June 30 | Total |
| 2020 | \$ 318,999 |
| 2021 | 212,083 |
| 2022 | 46,927 |
| 2023 | 103,277 |
| 2024 | - |
| Thereafter | - |
| Total | <u>\$ 681,286</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 | 7.0 percent, net of pension plan investment expense, including inflation |

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

The actuarial assumptions used in the December 31, 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.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

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:

| <u>Asset Class</u> | <u>Target Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|----------------------|--------------------------|---|
| Fixed income | 29.0% | 1.4% |
| Global equity | 42.0% | 5.3% |
| Real estate | 8.0% | 4.3% |
| Alternatives | 8.0% | 8.9% |
| Credit | 7.0% | 6.0% |
| Inflation protection | <u>6.0%</u> | 4.0% |
| Total | <u>100.00%</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.

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.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

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 1-percentage-point lower (6.00%) or 1-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) | \$ 2,793,440 | \$ 1,162,922 | \$ (199,564) |

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 of Highlands 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 under the age of 62 who have completed at least 30 years of credible service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. A separate report was not issued for the plan.

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

| | |
|-----------------------------|------------------|
| Retirees receiving benefits | 2 |
| Active plan members | <u>12</u> |
| Total | <u><u>14</u></u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

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 Statement 73.

Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2017 valuation. 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 | 2.50 percent |
| Salary increases | 3.50 to 7.35 percent, including inflation and real wage growth |
| 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 as of December 31, 2017.

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.

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 operating budget. There were no contributions made by 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 \$26,611 as benefits came due for the reporting period.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

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 \$409,918. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then 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 \$43,029.

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|---|--|---|
| Differences between expected and actual experience | \$ 73,931 | \$ 2,782 |
| Changes of assumptions | 12,347 | 14,634 |
| Town town benefit payments and plan administrative expense made subsequent to the measurement date | <u>13,306</u> | <u>-</u> |
| Total | <u>\$ 99,584</u> | <u>\$ 17,416</u> |

\$13,306 reported as deferred outflows of resources related to pensions resulting from benefit payments made subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Year Ending June 30</u> | <u>Amount</u> |
|---------------------------------------|-------------------------|
| 2020 | \$ 14,806 |
| 2021 | 14,806 |
| 2022 | 14,806 |
| 2023 | 15,447 |
| 2024 | 8,997 |
| Thereafter | <u>-</u> |
| Total | <u>\$ 68,862</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

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 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.64 percent) or 1-percentage-point higher (4.64 percent) than the current rate:

| | 1% Decrease (2.64%) | Discount Rate (3.64%) | 1% Increase (4.64%) |
|-------------------------|------------------------------------|--------------------------------------|------------------------------------|
| Total pension liability | \$ 438,983 | \$ 409,918 | \$ 383,301 |

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

| | 2019 |
|--|-------------------|
| Beginning balance | \$ 332,528 |
| Service cost | 17,787 |
| Interest on the total pension liability | 10,087 |
| Differences between expected and actual experience | 89,762 |
| Changes of assumptions or other inputs | (13,635) |
| Benefit payments | (26,611) |
| Ending balance of the total pension liability | <u>\$ 409,918</u> |

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

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

TOWN OF HIGHLANDS, NORTH CAROLINA

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

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

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

| | <u>LGERS</u> | <u>LEOSSA</u> | <u>Total</u> |
|---|--------------|---------------|--------------|
| Pension expense | \$ 336,148 | \$ 43,029 | \$ 379,177 |
| Pension liability | 1,162,922 | 409,918 | 1,572,840 |
| Proportion of the net pension liability | 0.049% | NA | - |

At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | <u>LGERS</u> | <u>LEOSSA</u> | <u>Total</u> |
|--|-------------------|------------------|---------------------|
| Deferred Outflows of Resources: | | | |
| Differences between expected and actual experience | \$ 179,411 | \$ 73,931 | \$ 253,342 |
| Changes of assumptions | 308,595 | 12,347 | 320,942 |
| Net difference between projected and actual earnings on pension plan investments | 159,635 | - | 159,635 |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | 42,371 | - | 42,371 |
| Town contributions (LGERS) and benefit payments and administration costs (LEOSSA) subsequent to the measurement date | <u>271,116</u> | <u>13,306</u> | <u>284,422</u> |
| | <u>\$ 961,128</u> | <u>\$ 99,584</u> | <u>\$ 1,060,712</u> |

Deferred Inflows of Resources:

| | | | |
|---|-----------------|------------------|------------------|
| Differences between expected and actual experience | \$ 6,020 | \$ 2,782 | \$ 8,802 |
| Changes of assumptions | - | 14,634 | 14,634 |
| Changes in proportion and differences between Town contributions and proportionate share of contributions | <u>2,706</u> | <u>-</u> | <u>2,706</u> |
| | <u>\$ 8,726</u> | <u>\$ 17,416</u> | <u>\$ 26,142</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. The law enforcement officers may also make voluntary contributions to the plan.

The Town made contributions of \$29,249 for the reporting year. No amounts were forfeited.

Other Post-Employment Benefits

Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75. According to a Town resolution, the Town allows employees who retire under the provisions of the North Carolina Local Government Retirement System (LGRS) to participate in the Town's healthcare plan upon retirement, until they become eligible for Medicare. Retirees can purchase health, dental and vision coverage through the Town. Retirees must pay the full blended rate premium for health coverage. There is no additional fee with the purchase of dental and vision insurance, however retirees pay a higher dental premium. Retirees are also eligible to purchase \$5,000 of life and AD&D coverage. There is no length of service requirement in order to qualify for the Town's post-employment coverage. Retirees receive the same insurance and HRA benefits as active employees. Retirees may remain on the plan regardless of Medicare eligibility, with the Town's plan being their primary coverage and Medicare being their secondary coverage. Also, retirees can purchase coverage for their dependents at the Town's group rates if the dependent was enrolled at the time of the employee's retirement. Dependent coverage terminates upon death of the retiree, when the retiree becomes eligible for Medicare, or when the dependent becomes eligible for Medicare. The Board of Commissioners may amend the benefit provisions. A separate report was not issued for the plan.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

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

| | |
|--|------------------|
| Retirees or beneficiaries receiving benefits | 7 |
| Active members: | |
| General employees | 54 |
| Law enforcement officers | <u>12</u> |
| Total | <u><u>73</u></u> |

Total OPEB Liability. The Town's total OPEB liability of \$137,813 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 (TOL) 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 | 1.00 percent |
| Wage inflation | 3.50 percent |
| Salary increases, including wage inflation: | |
| 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 trends: | |
| Pre-Medicare | 7.50% for 2017 decreasing to an ultimate rate of 5.00% by 2023 |

The discount rate used to measure the TOL was based on the June average of the Bond Buyer General Obligation 20-year Municipal Bond Index published weekly by The Bond Buyer.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Changes in the total OPEB liability:

| | |
|--|------------|
| Balance at July 1, 2018 | \$ 133,081 |
| Changes for the year | |
| Service cost | 6,559 |
| Interest | 4,724 |
| Differences between expected and actual experience | (1,371) |
| Changes in assumptions or other inputs | (4,380) |
| Benefit payments | (800) |
| Net changes | 4,732 |
| Balance at June 30, 2019 | \$ 137,813 |

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 increased 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 the LGERS.

The remaining actuarial assumptions (e.g. initial per capita costs, health care costs 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 percent) or 1-percentage-point higher (4.89 percent) than the current discount rate:

| | 1% Decrease (2.89%) | Discount Rate (3.89%) | 1% Increase (4.89%) |
|----------------------|------------------------------------|--------------------------------------|------------------------------------|
| Total OPEB liability | \$ 151,740 | \$ 137,813 | \$ 125,678 |

TOWN OF HIGHLANDS, 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 | \$ 132,657 | \$ 137,813 | \$ 144,022 |

OPEB Expense, 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 \$9,666. 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 | \$ 336 | \$ 1,199 |
| Changes of assumptions | - | 9,526 |
| Total | <u>\$ 336</u> | <u>\$ 10,725</u> |

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

| <u>Year Ending June 30</u> | <u>Amount</u> |
|--------------------------------|--------------------|
| 2020 | \$ (1,617) |
| 2021 | (1,617) |
| 2022 | (1,617) |
| 2023 | (1,617) |
| 2024 | (1,617) |
| Thereafter | <u>(2,304)</u> |
| Total | <u>\$ (10,389)</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Other Employment Benefits

The Town has elected to provide death benefits to employees engaged in law enforcement through the Death Benefit Plan for Members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, state-administered cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump-sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the state. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

Deferred Outflows and Inflows of Resources

The Town has several deferred outflows of resources. Deferred outflows of resources are comprised of the following:

| Source | Amount |
|---|---------------------|
| Contributions to pension plan in current fiscal year | \$ 271,116 |
| Benefit payments made and administration expenses for LEOSSA made subsequent to the measurement date | 13,306 |
| Differences between expected and actual experience (LGERS) | 179,411 |
| Differences between expected and actual experience (LEOSSA) | 73,931 |
| Differences between expected and actual experience (OPEB) | 336 |
| Changes of assumptions (LGERS) | 308,595 |
| Changes of assumptions (LEOSSA) | 12,347 |
| Net difference between projected and actual experience (LGERS) | 159,635 |
| Changes in proportion and differences between employer contributions and proportionate share (LGERS) | 42,371 |
| | <u>\$ 1,061,048</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

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

| | | |
|--|----|---------------|
| Taxes receivable, net (General Fund) | \$ | 15,691 |
| Changes in assumptions (LEOSSA) | | 14,634 |
| Changes in assumptions (OPEB) | | 9,526 |
| Differences between expected and actual experience (LEOSSA) | | 2,782 |
| Differences between expected and actual experience (LGERS) | | 6,020 |
| Differences between expected and actual experience (OPEB) | | 1,199 |
| Changes in proportion and differences between employer contributions and proportionate share (LGERS) | | 2,706 |
| | \$ | <u>52,558</u> |

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 obtains general liability coverage of \$2 million and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy through Wayah Insurance Agency. The liability and property exposures are reinsured through commercial carriers for claims. The Town's Workman's Comp is handled by the North Carolina League of Municipalities. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of reinsurance, excess stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The Town's medical insurance is through MedCost. The entities are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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

The Town does not carry flood insurance.

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 is individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$50,000.

Claims, Judgments and 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.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Long-Term Obligations

Governmental Activities:

Installment purchase contracts at June 30, 2019 are comprised of the following:

| | |
|---|---------------------|
| Installment purchase contract for the renovations of the Highlands Police Department. The note is payable in 20 semi-annual payments on August 3 and February 3 of a fixed principal amount of \$30,541.05. The Town will also pay interest at a rate of 3.07%. | \$ 122,164 |
| Installment purchase contract for the fiber build-out of the Town of Highlands. The note is payable in annual payments beginning on March 13, 2020 with a fixed principal of \$306,667. Interest rate of 3.66%. Final payment is due March 13, 2034. | <u>4,600,000</u> |
| Total long-term obligations - governmental activities | <u>\$ 4,722,164</u> |

The Town's outstanding notes from direct placements related to governmental activities of \$122,164 are secured with collateral of the building. The Town's outstanding notes from direct borrowings related to governmental activities of \$122,164 contain provisions that an event of default would result in (1) the timing of repayment of outstanding amounts become immediately due; (2) enforce the Town's performance of the applicable covenants of the agreement or recover for the breach thereof; (3) pay over any balance remaining in the Project Fund to be applied against outstanding required payments in any manner the bank may reasonably deem appropriate; and (3) avail itself of all available remedies under the agreement, including execution and foreclosure under execution on personal property or foreclosure and recovery of attorneys' fees and other expenses.

The Town's outstanding notes from direct placements related to governmental activities of \$4,600,000 are secured with the equipment. The Town's outstanding notes from direct borrowings related to governmental activities of \$4,600,000 contain provisions that an event of default would result in (1) the timing of repayment of outstanding amounts become immediately due; (2) enforce the Town's performance of the applicable covenants of the agreement or recover for the breach thereof; (3) pay over any balance remaining in the Project Fund to be applied against outstanding required payments in any manner the bank may reasonably deem appropriate; and (3) avail itself of all available remedies under the agreement, including execution on personal property and recovery of attorneys' fees and other expenses.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Annual debt service requirements to maturity are as follows:

| Year Ending <u>June 30</u> | <u>Governmental Activities</u> | |
|-------------------------------|--------------------------------|---------------------|
| | <u>Principal</u> | <u>Interest</u> |
| 2020 | \$ 367,749 | \$ 171,642 |
| 2021 | 367,749 | 158,542 |
| 2022 | 306,667 | 145,912 |
| 2023 | 306,667 | 134,688 |
| 2024 | 306,667 | 123,464 |
| 2025-2029 | 1,533,335 | 448,960 |
| 2030-2034 | <u>1,533,330</u> | <u>168,360</u> |
| Total | <u>\$ 4,722,164</u> | <u>\$ 1,351,568</u> |

Business-Type Activities:

Water and Sewer Fund:

Federal revolving loan for the construction of Mirror Lake Sewer Improvements. The loan has a maximum amount of \$1,395,072. The loan is payable in 20 annual installments beginning at the time the project is completed. The loan is interest free.

\$ 626,637

Federal revolving loan for the construction of Pine Street Stormwater Improvements. The loan has a maximum amount of \$746,517. The loan is payable in 20 annual installments beginning at the time the project is completed. The loan is interest free.

188,374

Federal revolving loan for the construction of Lake Sequoyah Intake Improvements. The loan has a maximum amount of \$413,690. The loan is payable in 20 annual installments beginning at the time the project is completed. The loan is interest free.

351,636

Total installment debt - Water and Sewer Fund

\$ 1,166,647

The Town's outstanding notes from direct borrowings related to the Water and Sewer Fund of \$1,166,647 contain a provision that in an event of default, may require the unit to prepay the note in full or may result in the State withholding any other monies due to the unit of local government. Notes are secured and payable solely from system revenues or other available funds, and not secured by a pledge of full faith and credit.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Annual debt service requirements to maturity are as follows:

| Year Ending June 30 | Business-Type Activities | |
|------------------------|--------------------------|-------------|
| | Principal | Interest |
| 2020 | \$ 93,350 | \$ - |
| 2021 | 93,350 | - |
| 2022 | 93,350 | - |
| 2023 | 93,350 | - |
| 2024 | 93,350 | - |
| 2025-2029 | 466,748 | - |
| 2030-2034 | 191,781 | - |
| 2035-2036 | 41,368 | - |
| Total | <u>\$ 1,166,647</u> | <u>\$ -</u> |

Electric Fund:

Long-term liability with Duke Energy in relation to Coal Ash Settlement.

The amount is payable in monthly payments ranging from \$13,505 - \$25,942

beginning in fiscal year 2018 and ending fiscal year 2028. No interest. \$ 1,600,000

Annual debt service requirements to maturity are as follows:

| Year Ending June 30 | Business-Type Activities | |
|------------------------|--------------------------|-------------|
| | Principal | Interest |
| 2020 | \$ 170,000 | \$ - |
| 2021 | 170,000 | - |
| 2022 | 170,000 | - |
| 2023 | 170,000 | - |
| 2024 | 170,000 | - |
| 2025-2028 | 750,000 | - |
| Total | <u>\$ 1,600,000</u> | <u>\$ -</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Changes in General Long-Term Obligations

| | <u>July 1, 2018</u> | <u>Additions</u> | <u>Retirements</u> | <u>June 30, 2019</u> | <u>Due in Less than One Year</u> |
|---|---------------------|---------------------|--------------------|----------------------|--|
| Governmental Activities: | | | | | |
| Notes from direct placements | \$ 183,246 | \$ 4,600,000 | \$ 61,082 | \$ 4,722,164 | \$ 367,749 |
| Total pension liability (LEOSSA) | 332,528 | 77,390 | - | 409,918 | - |
| Total OPEB liability | 78,404 | 2,873 | - | 81,277 | - |
| Net pension liability (LGERS) | 413,533 | 281,968 | - | 695,501 | - |
| Accrued vacation | 126,267 | 63,134 | 65,748 | 123,653 | 123,653 |
| Total governmental activities | <u>\$ 1,133,978</u> | <u>\$ 5,025,365</u> | <u>\$ 126,830</u> | <u>\$ 6,032,513</u> | <u>\$ 491,402</u> |
| Business-Type Activities: | | | | | |
| Water and Sewer Fund: | | | | | |
| Notes from direct placements and direct borrowings | \$ 1,259,996 | \$ - | \$ 93,349 | \$ 1,166,647 | \$ 93,350 |
| Total OPEB liability | 24,090 | 785 | - | 24,875 | - |
| Net pension liability (LGERS) | 120,059 | 79,891 | - | 199,950 | - |
| Accrued vacation | 50,095 | 25,048 | 23,427 | 51,716 | 51,716 |
| Total Water and Sewer Fund | <u>1,454,240</u> | <u>105,724</u> | <u>116,776</u> | <u>1,443,188</u> | <u>145,066</u> |
| Electric Fund: | | | | | |
| Coal Ash Settlement | 714,933 | 1,199,747 | 314,680 | 1,600,000 | 170,000 |
| Total OPEB liability | 21,156 | 709 | - | 21,865 | - |
| Net pension liability (LGERS) | 116,792 | 70,492 | - | 187,284 | - |
| Accrued vacation | 58,760 | 29,380 | 27,387 | 60,753 | 60,753 |
| Total Electric Fund | <u>911,641</u> | <u>1,300,328</u> | <u>342,067</u> | <u>1,869,902</u> | <u>230,753</u> |
| Sanitation Fund: | | | | | |
| Total OPEB liability | 9,431 | 365 | - | 9,796 | - |
| Net pension liability (LGERS) | 42,591 | 37,596 | - | 80,187 | - |
| Accrued vacation | 22,440 | 11,220 | 13,782 | 19,878 | 19,878 |
| Total Sanitation Fund | <u>74,462</u> | <u>49,181</u> | <u>13,782</u> | <u>109,861</u> | <u>19,878</u> |
| Total business-type activities | <u>\$ 2,440,343</u> | <u>\$ 1,455,233</u> | <u>\$ 472,625</u> | <u>\$ 3,422,951</u> | <u>\$ 395,697</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

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

Compensated absences will be liquidated in the General Fund and are accounted for on an FIFO basis. Net pension liability has been liquidated in the General Fund.

At June 30, 2019, the Town of Highlands had a legal debt margin of approximately \$134,375,000.

C. Interfund Balances and Activity

Transfers To/From Other Funds

Transfers to/from other funds for the year ended June 30, 2019 are as follows:

| <u>Fund</u> | <u>To</u> | <u>From</u> | <u>Purpose</u> |
|--|---------------------|---------------------|--------------------------------------|
| Governmental Activities: | | | |
| General Fund: | | | |
| Water Fund | 160,000 | - | Capital expenditures |
| Capital Project Fund | 198,700 | - | Capital expenditures |
| Water & Sewer Capital Project Fund | 15,698 | - | To record general fund debt payments |
| Capital Project Fund: | | | |
| General Fund | | 198,700 | Capital expenditures |
| Water & Sewer Fund: | | | |
| General Fund | | 160,000 | Capital expenditures |
| Electric Fund | - | 140,666 | Capital expenditures |
| Water & Sewer and Capital Project Fund: | | | |
| General Fund | - | 15,698 | To record general fund debt payments |
| Electric Fund | - | 1,378,000 | Capital expenditures |
| Sanitation Fund: | | | |
| Electric Fund | - | 55,000 | Operating expenditures |
| Electric Fund: | | | |
| Water and Sewer Fund | 140,666 | - | Capital expenditures |
| Sanitation Fund | 55,000 | - | Operating expenditures |
| Water & Sewer Capital Project Fund | <u>1,378,000</u> | - | Capital expenditures |
| Total | <u>\$ 1,948,064</u> | <u>\$ 1,948,064</u> | |

Transfers were to finance capital activities, debt service payments, and for annual operating expenditures.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

3. Summary Disclosures 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 agreement. 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.

TOWN OF HIGHLANDS, 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 | \$ 332,528 | \$ 317,506 | \$ 311,162 |
| Service cost | 17,787 | 15,332 | 15,703 |
| Interest on the total pension liability | 10,087 | 11,742 | 10,868 |
| Differences between expected and actual experience in the measurement of the total pension liability | 89,762 | (4,234) | - |
| Changes of assumptions or other inputs | (13,635) | 18,793 | (6,755) |
| Benefit payments | (26,611) | (26,611) | (13,472) |
| Ending balance of the total pension liability | <u>\$ 409,918</u> | <u>\$ 332,528</u> | <u>\$ 317,506</u> |

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

TOWN OF HIGHLANDS, 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 | \$ 409,918 | \$ 332,528 | \$ 317,506 |
| Covered payroll | 587,715 | 605,264 | 586,380 |
| Total pension liability as a percentage of covered payroll | 69.75% | 54.94% | 54.15% |

Notes to the Schedules:

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

TOWN OF HIGHLANDS, NORTH CAROLINA

**SCHEDULE OF CHANGES IN THE TOTAL OPEB LIABILITY
AND RELATED RATIOS
REQUIRED SUPPLEMENTARY INFORMATION
LAST TWO FISCAL YEARS**

| | Total OPEB Liability | |
|---|-----------------------------|--------------------------|
| | 2019 | 2018 |
| Service cost | \$ 6,559 | \$ 6,984 |
| Interest | 4,724 | 3,932 |
| Differences between expected and actual experience | (1,371) | 448 |
| Changes of assumptions | (4,380) | (7,599) |
| Benefit payments | <u>(800)</u> | <u>(2,588)</u> |
| Net change in total OPEB liability | 4,732 | 1,177 |
| Total OPEB liability - beginning | <u>133,081</u> | <u>131,904</u> |
| Total OPEB liability - ending | <u><u>\$ 137,813</u></u> | <u><u>\$ 133,081</u></u> |
| Covered payroll | \$ 2,912,351 | \$ 2,912,351 |
| Total OPEB liability as a percentage of covered payroll | 4.73% | 4.57% |

Notes to Schedule:

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% |

TOWN OF HIGHLANDS, NORTH CAROLINA**TOWN'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 |
| Town's proportion of the net pension liability (asset) (%) | 0.04902% | 0.04536% | 0.04802% | 0.05021% | 0.05159% | 0.05050% |
| Town's proportion of the net pension liability (asset) (\$) | \$ 1,162,922 | \$ 692,975 | \$ 1,019,145 | \$ 225,339 | \$ (304,251) | \$ 608,719 |
| Town's covered payroll* | \$ 3,441,810 | \$ 3,127,471 | \$ 3,157,944 | \$ 2,983,108 | \$ 2,905,876 | \$ 2,870,974 |
| Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll | 33.79% | 22.16% | 32.27% | 7.55% | -10.47% | 21.20% |
| 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.

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

| Local Government Employees' Retirement System | | | | | | |
|--|----------------|----------------|----------------|----------------|----------------|----------------|
| | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 |
| Contractually required contribution | \$ 271,116 | \$ 261,215 | \$ 228,634 | \$ 212,946 | \$ 212,403 | \$ 206,741 |
| Contributions in relation to the contractually required contribution | <u>271,116</u> | <u>261,215</u> | <u>228,634</u> | <u>212,946</u> | <u>212,403</u> | <u>206,741</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Town's covered payroll | \$ 3,453,004 | \$ 3,441,810 | \$ 3,127,471 | \$ 3,157,944 | \$ 2,983,108 | \$ 2,905,876 |
| Contributions as a percentage of covered payroll | 7.85% | 7.59% | 7.31% | 6.74% | 7.12% | 7.11% |

TOWN OF HIGHLANDS, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2019

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018

| | 2019 | | | 2018 |
|---|--------------|--------------|------------------------|--------------|
| | Budget | Actual | Variance Over/Under | Actual |
| Revenues: | | | | |
| Ad Valorem Taxes: | | | | |
| Taxes | \$ 2,820,000 | \$ 2,919,545 | \$ 99,545 | \$ 2,891,504 |
| Other Taxes and Licenses: | | | | |
| Privilege licenses | - | 220 | 220 | 580 |
| Local option sales tax | 941,000 | 1,172,252 | 231,252 | 1,088,188 |
| Other taxes | - | - | - | 529 |
| Total other taxes and licenses | 941,000 | 1,172,472 | 231,472 | 1,089,297 |
| Unrestricted Intergovernmental Revenues: | | | | |
| Franchise tax | 250,000 | 292,540 | 42,540 | 270,449 |
| ABC profit distribution | 40,000 | 48,864 | 8,864 | 52,331 |
| Total unrestricted intergovernmental revenues | 290,000 | 341,404 | 51,404 | 322,780 |
| Restricted Intergovernmental Revenues: | | | | |
| Macon County recreation | 550,000 | 550,000 | - | 900,000 |
| Macon County Police SRO | 50,000 | 50,000 | - | 50,000 |
| Powell Bill allocation | 50,000 | 55,149 | 5,149 | 54,606 |
| Other grants | - | 23,231 | 23,231 | 57,860 |
| ABC profits for law enforcement | - | 4,631 | 4,631 | 3,066 |
| Total restricted intergovernmental revenues | 650,000 | 683,011 | 33,011 | 1,065,532 |
| Permits and Fees: | | | | |
| Zoning permits | 25,000 | 49,351 | 24,351 | 39,569 |
| Antenna fees | 6,300 | 30,369 | 24,069 | 26,069 |
| Total permits and fees | 31,300 | 79,720 | 48,420 | 65,638 |
| Sales and Services: | | | | |
| Recreation department fees | 112,500 | 168,126 | 55,626 | 152,671 |
| Fiber charges | 154,000 | 218,451 | 64,451 | 156,278 |
| Court costs and fees | - | 333 | 333 | 644 |
| Total sales and services | 266,500 | 386,910 | 120,410 | 309,593 |
| Investment Earnings | 5,000 | 95,700 | 90,700 | 31,372 |
| Contributions | 6,800 | 6,758 | (42) | 293,134 |

TOWN OF HIGHLANDS, NORTH CAROLINA**GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCE - BUDGET AND ACTUAL****FOR THE YEAR ENDED JUNE 30, 2019****WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018**

| | 2019 | | | 2018 |
|---|---------------|---------------|--------------------------------|---------------|
| | Budget | Actual | Variance Over/Under | Actual |
| Miscellaneous: | | | | |
| Administrative costs allocated | 133,268 | 133,268 | - | 133,268 |
| Hospital insurance reimbursement | - | 4,735 | 4,735 | 4,002 |
| Other | 12,500 | 56,051 | 43,551 | 90,907 |
| Total miscellaneous | 145,768 | 194,054 | 48,286 | 228,177 |
| Total revenues | 5,156,368 | 5,879,574 | 723,206 | 6,297,027 |
| Expenditures: | | | | |
| General Government: | | | | |
| Governing Body and Administration: | | | | |
| Salaries and employee benefits | 641,460 | 629,100 | 12,360 | 620,880 |
| Capital outlay | 48,000 | 37,954 | 10,046 | 11,014 |
| Operating expenses | 370,979 | 301,166 | 69,813 | 292,700 |
| Total governing body | 1,060,439 | 968,220 | 92,219 | 924,594 |
| Planning and Zoning Department: | | | | |
| Salaries and employee benefits | 92,750 | 26,181 | 66,569 | 83,124 |
| Operating expenses | 18,428 | 3,099 | 15,329 | 9,556 |
| Total planning and zoning | 111,178 | 29,280 | 81,898 | 92,680 |
| Public Buildings: | | | | |
| Salaries and employee benefits | 32,000 | 24,035 | 7,965 | 16,614 |
| Capital outlay | 102,500 | 100,687 | 1,813 | - |
| Operating expenses | 74,200 | 50,895 | 23,305 | 73,490 |
| Total public buildings | 208,700 | 175,617 | 33,083 | 90,104 |
| MIS/GIS: | | | | |
| Salaries and employee benefits | 781,650 | 738,568 | 43,082 | 710,824 |
| Capital outlay | 69,000 | 67,958 | 1,042 | - |
| Operating expenses | 305,258 | 236,007 | 69,251 | 214,892 |
| Total MIS/GIS | 1,155,908 | 1,042,533 | 113,375 | 925,716 |
| Total general government | 2,536,225 | 2,215,650 | 320,575 | 2,033,094 |
| Public Safety: | | | | |
| Police: | | | | |
| Salaries and employee benefits | 1,022,150 | 962,157 | 59,993 | 914,133 |
| Capital outlay | 125,800 | 124,410 | 1,390 | 210,676 |
| Operating expenses | 315,179 | 281,939 | 33,240 | 249,036 |
| Total public safety | 1,463,129 | 1,368,506 | 94,623 | 1,373,845 |

TOWN OF HIGHLANDS, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2019

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018

| | 2019 | | | 2018 |
|--|-------------|--------------|------------------------|--------------|
| | Budget | Actual | Variance Over/Under | Actual |
| Transportation: | | | | |
| Streets and Highways: | | | | |
| Salaries and employee benefits | 368,500 | 353,112 | 15,388 | 348,440 |
| Capital outlay | 558,000 | 478,089 | 79,911 | 174,209 |
| Operating expenses | 368,058 | 335,273 | 32,785 | 342,387 |
| Total transportation | 1,294,558 | 1,166,474 | 128,084 | 865,036 |
| Culture and Recreation: | | | | |
| Recreation and Civic Center: | | | | |
| Salaries and employee benefits | 544,000 | 478,184 | 65,816 | 451,055 |
| Capital outlay | 39,001 | 29,642 | 9,359 | 1,174,412 |
| Operating expenses | 359,729 | 313,502 | 46,227 | 276,340 |
| Total culture and recreation | 942,730 | 821,328 | 121,402 | 1,901,807 |
| Debt Service: | | | | |
| Principal | 61,082 | 61,082 | - | 61,082 |
| Interest | 5,157 | 5,157 | - | 7,032 |
| Total debt service | 66,239 | 66,239 | - | 68,114 |
| Total expenditures | 6,302,881 | 5,638,197 | 664,684 | 6,241,896 |
| Revenues over (under) expenditures | (1,146,513) | 241,377 | 1,387,890 | 55,131 |
| Other Financing Sources (Uses): | | | | |
| Transfer to Water and Sewer Fund | (160,000) | (160,000) | - | (232,750) |
| Transfer to Water and Sewer Capital Project Fund | (232,321) | (15,698) | 216,623 | (15,698) |
| Transfer to Capital Project Fund | (198,700) | (198,700) | - | - |
| Transfer from Electric Fund | - | - | - | 10,526 |
| Appropriated fund balance | 1,737,534 | - | (1,737,534) | - |
| Total other financing sources (uses) | 1,146,513 | (374,398) | (1,520,911) | (237,922) |
| Net change in fund balance | \$ - | (133,021) | \$ (133,021) | (182,791) |
| Fund Balance: | | | | |
| Beginning of year - July 1 | | 4,261,785 | | 4,444,576 |
| End of year - June 30 | | \$ 4,128,764 | | \$ 4,261,785 |

TOWN OF HIGHLANDS, NORTH CAROLINA

**CAPITAL PROJECTS FUND - MAJOR
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2019**

| | | <u>Actual</u> | | | |
|--|----------------------------------|------------------------|-------------------------|--------------------------|--------------------------------|
| | <u>Project Authorization</u> | <u>Prior Years</u> | <u>Current Year</u> | <u>Total to Date</u> | <u>Variance Over/Under</u> |
| Revenues: | | | | | |
| Investment earnings | \$ - | \$ - | \$ 139 | \$ 139 | \$ 139 |
| Expenditures: | | | | | |
| Fiber build out | 4,600,000 | - | 93,156 | 93,156 | 4,506,844 |
| Revenues over (under) expenditures | (4,600,000) | - | (93,017) | (93,017) | 4,506,983 |
| Other Financing Sources (Uses): | | | | | |
| Transfers in | - | - | 198,700 | 198,700 | 198,700 |
| Long-term debt issued | 4,600,000 | - | 4,600,000 | 4,600,000 | - |
| Total other financing sources (uses) | 4,600,000 | - | 4,798,700 | 4,798,700 | 198,700 |
| Net change in fund balance | \$ - | \$ - | 4,705,683 | \$ 4,705,683 | \$ 4,705,683 |
| Fund Balance: | | | | | |
| Beginning of year - July 1 | | | - | | |
| End of year - June 30 | | | \$ 4,705,683 | | |

TOWN OF HIGHLANDS, NORTH CAROLINA

**FIRE DEPARTMENT FUND - NON-MAJOR
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018**

| | 2019 | | | 2018 |
|--|------------------|--------------------------|--------------------------------|--------------------------|
| | Budget | Actual | Variance Over/Under | Actual |
| Revenues: | | | | |
| Macon County Fire District | \$ 354,270 | \$ 378,155 | \$ 23,885 | \$ 374,579 |
| Jackson County Fire District | 50,000 | 50,000 | - | 50,000 |
| Miscellaneous revenue | - | 6,375 | 6,375 | 16,397 |
| Charitable contributions | 10,000 | 17,852 | 7,852 | 16,028 |
| Investment earnings | - | 3,104 | 3,104 | 638 |
| Total revenues | <u>414,270</u> | <u>455,486</u> | <u>41,216</u> | <u>457,642</u> |
| Expenditures: | | | | |
| Public safety: | | | | |
| Salaries and benefits | 197,500 | 178,800 | 18,700 | 185,474 |
| Operating expenditures | 296,770 | 125,746 | 171,024 | 171,708 |
| Capital outlay | <u>150,000</u> | <u>171,065</u> | <u>(21,065)</u> | <u>-</u> |
| Total expenditures | <u>644,270</u> | <u>475,611</u> | <u>168,659</u> | <u>357,182</u> |
| Revenues over (under) expenditures | <u>(230,000)</u> | <u>(20,125)</u> | <u>209,875</u> | <u>100,460</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers in (out) | - | - | - | 1,316 |
| Appropriated fund balance | <u>230,000</u> | <u>-</u> | <u>(230,000)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>230,000</u> | <u>-</u> | <u>(230,000)</u> | <u>1,316</u> |
| Net change in fund balance | <u>\$ -</u> | <u>(20,125)</u> | <u>\$ (20,125)</u> | <u>101,776</u> |
| Fund Balance: | | | | |
| Beginning of year, July 1 | | <u>685,366</u> | | <u>583,590</u> |
| End of year, June 30 | | <u><u>\$ 665,241</u></u> | | <u><u>\$ 685,366</u></u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

ELECTRIC FUND

SCHEDULE OF REVENUES AND EXPENDITURES -

BUDGET AND ACTUAL (NON-GAAP)

FOR THE YEAR ENDED JUNE 30, 2019

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018

| | 2019 | | | 2018 |
|--|--------------|----------------|------------------------|--------------|
| | Budget | Actual | Variance Over/Under | Actual |
| Revenues: | | | | |
| Operating revenues: | | | | |
| Charges for services | \$ 5,269,000 | \$ 5,527,267 | \$ 258,267 | \$ 5,526,501 |
| Coal Ash recovery fees | 198,000 | 197,632 | (368) | 82,597 |
| Other operating revenues | 442,700 | 484,820 | 42,120 | 499,100 |
| Total operating revenues | 5,909,700 | 6,209,719 | 300,019 | 6,108,198 |
| Non-operating revenues: | | | | |
| Investment earnings | 40,900 | 74,819 | 33,919 | 15,037 |
| Total revenues | 5,950,600 | 6,284,538 | 333,938 | 6,123,235 |
| Expenditures: | | | | |
| Current: | | | | |
| Purchased power | 3,000,000 | 2,964,566 | 35,434 | 2,654,067 |
| Operating | 1,860,878 | 1,706,839 | 154,039 | 1,681,253 |
| Capital outlay | - | - | - | 34,832 |
| Total | 4,860,878 | 4,671,405 | 189,473 | 4,370,152 |
| Debt Service: | | | | |
| Principal | 279,000 | 314,680 | (35,680) | 185,067 |
| Total expenditures | 5,139,878 | 4,986,085 | 153,793 | 4,555,219 |
| Revenues over (under) expenditures | 810,722 | 1,298,453 | 487,731 | 1,568,016 |
| Other Financing Sources (Uses): | | | | |
| Appropriated fund balance | 805,752 | - | (805,752) | - |
| Transfer to General Fund | - | - | - | (10,526) |
| Transfer to Sanitation Fund | (97,808) | (55,000) | 42,808 | (30,132) |
| Transfer to Fire Fund | - | - | - | (1,316) |
| Transfer to Water and Sewer Fund | (140,666) | (140,666) | - | (572,887) |
| Transfer to Water and Sewer Capital Projects Fund | (1,378,000) | (1,378,000) | - | (153,100) |
| Total other financing sources (uses) | (810,722) | (1,573,666) | (762,944) | (767,961) |
| Revenues and other financing sources over (under) expenditures and other financing uses | \$ - | \$ (275,213) | \$ (275,213) | \$ 800,055 |
| Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual: | | | | |
| Revenues and other financing sources over (under) expenditures and other financing uses | | \$ (275,213) | | |
| Change in OPEB liability | | (709) | | |
| Change in deferred outflows - OPEB | | (9) | | |
| Change in deferred inflows - OPEB | | (615) | | |
| Change in accrued vacation | | (1,993) | | |
| Principal payments | | 314,680 | | |
| Increase in Coal Ash Settlement | | (1,199,747) | | |
| Change in deferred outflows - pension | | (58,440) | | |
| Change in net pension liability | | 70,492 | | |
| Change in deferred inflows - pension | | (2,297) | | |
| Depreciation | | (120,478) | | |
| Change in net position - GAAP basis | | \$ (1,274,329) | | |

TOWN OF HIGHLANDS, NORTH CAROLINA

WATER AND SEWER FUND

SCHEDULE OF REVENUES AND EXPENDITURES

BUDGET AND ACTUAL (NON-GAAP)

FOR THE YEAR ENDED JUNE 30, 2019

WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018

| | 2019 | | | 2018 |
|--|------------------|-------------------|--------------------------------|-------------------|
| | Budget | Actual | Variance Over/Under | Actual |
| Revenues: | | | | |
| Operating revenues: | | | | |
| Charges for services | \$ 2,275,100 | \$ 2,266,323 | \$ (8,777) | \$ 2,338,311 |
| Restricted intergovernmental | 150,000 | 29,150 | (120,850) | - |
| Other operating revenues | 2,500 | 981 | (1,519) | 27,573 |
| Total operating revenues | <u>2,427,600</u> | <u>2,296,454</u> | <u>(131,146)</u> | <u>2,365,884</u> |
| Non-operating revenues: | | | | |
| Investment earnings | 6,700 | 11,867 | 5,167 | 2,698 |
| Total non-operating revenues | <u>6,700</u> | <u>11,867</u> | <u>5,167</u> | <u>2,698</u> |
| Total revenues | <u>2,434,300</u> | <u>2,308,321</u> | <u>(125,979)</u> | <u>2,368,582</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Water purchases and operations | 843,728 | 696,170 | 147,558 | 648,108 |
| Sewer treatment and operations | 585,803 | 496,334 | 89,469 | 501,008 |
| Water Treatment Plant purchases and operations | 901,283 | 698,205 | 203,078 | 751,870 |
| Capital outlay | 423,000 | 479,976 | (56,976) | 1,021,363 |
| Total expenditures | <u>2,753,814</u> | <u>2,370,685</u> | <u>383,129</u> | <u>2,922,349</u> |
| Revenues over (under) expenditures | <u>(319,514)</u> | <u>(62,364)</u> | <u>257,150</u> | <u>(553,767)</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers from Electric Fund | 140,666 | 140,666 | - | 572,887 |
| Transfers to capital projects fund - intrafund | (149,902) | (77,652) | 72,250 | (77,652) |
| Transfers from General Fund | 160,000 | 160,000 | - | 232,750 |
| Appropriated fund balance | 168,750 | - | (168,750) | - |
| Total other financing sources (uses) | <u>319,514</u> | <u>223,014</u> | <u>(96,500)</u> | <u>727,985</u> |
| Revenues and other financing sources over (under) expenditures and other financing uses | <u>\$ -</u> | <u>\$ 160,650</u> | <u>\$ 160,650</u> | <u>\$ 174,218</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA**WATER AND SEWER FUND****SCHEDULE OF REVENUES AND EXPENDITURES****BUDGET AND ACTUAL (NON-GAAP)****FOR THE YEAR ENDED JUNE 30, 2019****WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018**

| | 2019 | | | 2018 |
|--|---------------|---------------------|--------------------------------|---------------|
| | Budget | Actual | Variance Over/Under | Actual |
| Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual: | | | | |
| Revenues and other financing sources over (under) expenditures and other financing uses | | \$ 160,650 | | |
| Change in accrued vacation | | (1,621) | | |
| Change in OPEB liability | | (785) | | |
| Change in deferred outflows - OPEB | | (9) | | |
| Change in deferred inflows - OPEB | | (671) | | |
| Capital outlay capitalized | | 479,976 | | |
| Change in deferred outflows - pension | | 66,233 | | |
| Change in net pension liability | | (79,891) | | |
| Change in deferred inflows - pension | | 2,603 | | |
| Depreciation | | (841,062) | | |
| Enterprise Fund Capital Projects: | | | | |
| Transfers to other funds | | 1,393,698 | | |
| Intrafund transfers to (from) Capital Projects Fund | | <u>77,652</u> | | |
| Change in net position - GAAP basis | | <u>\$ 1,256,773</u> | | |

TOWN OF HIGHLANDS, NORTH CAROLINA

CONSOLIDATED WATER AND SEWER CAPITAL PROJECTS 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 |
| Expenditures: | | | | |
| Buckhorn Tank Rebuild project | \$ 3,170,923 | \$ 70,428 | \$ 1,131,983 | \$ 1,202,411 |
| Sagee Waterline | 40,000 | - | 20,000 | 20,000 |
| Total project expenditures | <u>3,210,923</u> | <u>70,428</u> | <u>1,151,983</u> | <u>1,222,411</u> |
| Debt Service: | | | | |
| Principal | 1,181,568 | 1,087,838 | 93,349 | 1,181,187 |
| Interest | 20,230 | 18,597 | - | 18,597 |
| Total debt service | <u>1,201,798</u> | <u>1,106,435</u> | <u>93,349</u> | <u>1,199,784</u> |
| Total expenditures | <u>4,412,721</u> | <u>1,176,863</u> | <u>1,245,332</u> | <u>2,422,195</u> |
| Revenues over (under) expenditures | <u>(4,412,721)</u> | <u>(1,176,863)</u> | <u>(1,245,332)</u> | <u>(2,422,195)</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers (to) from other funds: | | | | |
| Water and Sewer Fund | 881,172 | 433,247 | 77,652 | 510,899 |
| Electric Reserve Fund | 2,163,316 | 701,463 | 1,378,000 | 2,079,463 |
| General Fund | 1,368,233 | 607,070 | 15,698 | 622,768 |
| Total other financing sources (uses) | <u>4,412,721</u> | <u>1,741,780</u> | <u>1,471,350</u> | <u>3,213,130</u> |
| Revenues and other financing sources over (under) expenditures and other financing uses | <u>\$ -</u> | <u>\$ 564,917</u> | <u>\$ 226,018</u> | <u>\$ 790,935</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA**SANITATION FUND****SCHEDULE OF REVENUES AND EXPENDITURES****BUDGET AND ACTUAL (NON-GAAP)****FOR THE YEAR ENDED JUNE 30, 2019****WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2018**

| | 2019 | | | 2018 |
|--|------------------|------------------|--------------------------------|------------------|
| | Budget | Actual | Variance Over/Under | Actual |
| Revenues: | | | | |
| Operating revenues: | | | | |
| Charges for services | \$ 712,800 | \$ 741,235 | \$ 28,435 | \$ 721,275 |
| Other operating revenues | - | - | - | 3,132 |
| Total operating revenues | <u>712,800</u> | <u>741,235</u> | <u>28,435</u> | <u>724,407</u> |
| Total revenues | <u>712,800</u> | <u>741,235</u> | <u>28,435</u> | <u>724,407</u> |
| Expenditures: | | | | |
| Current: | | | | |
| Sanitation purchases and operations | <u>820,308</u> | <u>758,183</u> | <u>62,125</u> | <u>681,686</u> |
| Total expenditures | <u>820,308</u> | <u>758,183</u> | <u>62,125</u> | <u>681,686</u> |
| Revenues over (under) expenditures | <u>(107,508)</u> | <u>(16,948)</u> | <u>90,560</u> | <u>42,721</u> |
| Other Financing Sources (Uses): | | | | |
| Transfers from Electric Fund | 97,808 | 55,000 | (42,808) | 30,132 |
| Appropriated fund balance | <u>9,700</u> | <u>-</u> | <u>(9,700)</u> | <u>-</u> |
| Total other financing sources (uses) | <u>107,508</u> | <u>55,000</u> | <u>(52,508)</u> | <u>30,132</u> |
| Revenues and other financing sources over (under) expenditures and other financing uses | <u>\$ -</u> | <u>\$ 38,052</u> | <u>\$ 38,052</u> | <u>\$ 72,853</u> |

Reconciliation from Budgetary Basis**(Modified Accrual) to Full Accrual:**

| | |
|--|--------------------|
| Revenues and other financing sources over (under) expenditures and other financing uses | \$ 38,052 |
| Change in accrued vacation | 2,562 |
| Change in OPEB liability | (365) |
| Change in deferred outflows - OPEB | (3) |
| Change in deferred inflows - OPEB | (338) |
| Change in deferred outflows - pension | 31,168 |
| Change in net pension liability | (37,596) |
| Change in deferred inflows - pension | 1,225 |
| Depreciation | <u>(49,254)</u> |
| Change in net position - GAAP basis | <u>\$ (14,549)</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2019

| | Scholarship Fund | Cemetery Fund | Total |
|--------------------------------------|-----------------------------|--------------------------|---------------------|
| Assets: | | | |
| Cash and cash equivalents | \$ 906,716 | \$ 226,653 | \$ 1,133,369 |
| Accounts receivable | 226 | 16 | 242 |
| Total assets | <u>906,942</u> | <u>226,669</u> | <u>1,133,611</u> |
| Liabilities and Net Position: | | | |
| Liabilities: | | | |
| Accounts payable | <u>-</u> | <u>3,196</u> | <u>3,196</u> |
| Net Position: | | | |
| Held in trust for other purposes | <u>\$ 906,942</u> | <u>\$ 223,473</u> | <u>\$ 1,130,415</u> |

TOWN OF HIGHLANDS, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2019

| Year Ended June 30 | Uncollected Balance July 1, 2018 | Additions | Collections and Credits | Uncollected Balance June 30, 2019 |
|-------------------------------|---|---------------------|------------------------------------|--|
| 2019 | \$ - | \$ 2,908,217 | \$ 2,897,524 | \$ 10,693 |
| 2018 | 17,544 | - | 12,175 | 5,369 |
| 2017 | 4,052 | - | 2,347 | 1,705 |
| 2016 | 2,266 | - | 770 | 1,496 |
| 2015 | 2,069 | - | 949 | 1,120 |
| 2014 | 1,909 | - | 854 | 1,055 |
| 2013 | 1,995 | - | 854 | 1,141 |
| 2012 | 602 | - | - | 602 |
| 2011 | 838 | - | - | 838 |
| 2010 | 672 | - | - | 672 |
| 2009 | 387 | - | 387 | - |
| Total | <u>\$ 32,334</u> | <u>\$ 2,908,217</u> | <u>\$ 2,915,860</u> | <u>24,691</u> |

Less: Allowance for uncollectible ad valorem taxes receivable: (9,000)

Ad valorem taxes receivable, net \$ 15,691

Reconciliation of Collections and Credits with Revenues:

Ad valorem taxes:

Ad valorem taxes - General Fund \$ 2,919,545

Reconciling items:

Miscellaneous adjustments (4,072)

Taxes written off 387

Total collections and credits \$ 2,915,860

TOWN OF HIGHLANDS, NORTH CAROLINA

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

| | Property Valuation | Rate | Total Levy | Total Levy | |
|---|------------------------|----------|---------------------|--|---------------------------------|
| | | | | Property Excluding Registered Motor Vehicles | Registered Motor Vehicles |
| Original Levy: | | | | | |
| Property taxed at current year's rate | \$1,770,722,561 | \$ 0.164 | \$ 2,903,985 | \$ 2,880,181 | \$ 23,804 |
| Penalties | 2,580,488 | | 4,232 | 4,138 | 94 |
| Total | <u>1,773,303,049</u> | | <u>2,908,217</u> | <u>2,884,319</u> | <u>23,898</u> |
| Total property valuation | <u>\$1,773,303,049</u> | | | | |
| Net Levy | | | 2,908,217 | 2,884,319 | 23,898 |
| Uncollected taxes at June 30, 2019 | | | <u>(10,693)</u> | <u>(10,693)</u> | <u>-</u> |
| Current Year's Taxes Collected | | | <u>\$ 2,897,524</u> | <u>\$ 2,873,626</u> | <u>\$ 23,898</u> |
| Current Levy Collection Percentage | | | <u>99.63%</u> | <u>99.63%</u> | <u>100.00%</u> |

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
Town Commissioners
Town of Highlands
Highlands, 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 discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Highlands, 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 October 15, 2019. Our report includes a reference to other auditors who audited the financial statements of the Town of Highlands ABC Board, as described in our report on the Town of Highlands' financial statements. The financial statements of the Town of Highlands ABC Board 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 Highlands' 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 Highlands' 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 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2019-001, 2019-002, and 2019-003 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Highlands' 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 Highlands' Responses to Findings

The Town of Highlands' responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Town's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 Town'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
October 15, 2019

TOWN OF HIGHLANDS, NORTH CAROLINA

SCHEDULE OF FINDINGS AND RESPONSES 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 were prepared
in accordance to GAAP:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? _____ Yes X No
- Significant deficiencies identified? X Yes _____ None reported

Non-compliance material to financial
statements noted?

_____ Yes X No

TOWN OF HIGHLANDS, NORTH CAROLINA

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

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

Significant Deficiency

Finding 2019-001

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Due to the limited number of personnel in the Town office, there are inherent limitations to the segregation of duties among Town personnel relating to cash receipts and access to the general ledger. The same employee that collects cash also performs the duties of posting and reconciling the receipts and preparing the receipts for deposit. Furthermore, the employee that performs the bank statement reconciliation occasionally performs the cash collection and deposit preparation duties. Due to this limitation, access to the general ledger is not ideally restricted. Cash reconciliations were being completed, but were not always balanced to the general ledger monthly during the year. There are also inherent limitations regarding journal entries. The preparation, posting, and approval for journal entries for the majority of the year under audit were being completed by the same individual, without a timely review of the entries being conducted.

Effect: Errors in financial reporting could occur and not be detected.

Cause: There are a limited number of personnel for certain functions.

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

Recommendation: Access to the books and records of the Town should be separated from access to the assets of the Town as much as possible. Alternative controls should be used to compensate for any lack of segregation of duties. The Town Commissioners should provide some of these controls. Require cash reconciliations balance to the general ledger accounts on a monthly basis and have review completed by other management.

Views of Responsible Officials and Planned Corrective Action: Management is aware of the weakness, but due to the cost benefit analysis, hiring additional personnel does not appear feasible. Management is implementing timely monthly review of journal entries and cash reconciliations going forward.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

2. Findings Related to the Audit of the Basic Financial Statements (continued)

Significant Deficiency

Finding 2019-002

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: The external auditor prepared a draft of the basic financial statements, all required note disclosures, and supplemental schedules. Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board requires a level of technical expertise not possessed by Town personnel with regards to drafting full accrual, full disclosure year-end financial statements. Although management of the town does not possess expertise to draft full accrual, full disclosure financial statements, they do accept responsibility for the preparation and fair presentation of the financial statements and they possess the skills and knowledge to adequately oversee and perform a detail review of the drafted full accrual, full disclosure financial statements and reconcile the financial statements to the records of the Town.

Effect: Errors in financial reporting could occur.

Cause: There are limited Town resources as it relates to the preparation of full accrual, full disclosure year-end financial statements.

Identification of a Repeat Finding: This is a repeat finding from the immediate previous audit 2018-002.

Recommendation: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears cost prohibitive. Therefore, the Town should exercise due care in overseeing drafting services, reconciling, and reviewing the financial statements drafted by the external auditor as the Town is responsible for the accuracy of the audited financial statements.

Views of Responsible Officials and Planned Corrective Action: Management is aware of the weakness, but due to the cost benefit analysis, they will continue to rely on the external auditor to draft the year-end financial statements.

TOWN OF HIGHLANDS, NORTH CAROLINA

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

2. Findings Related to the Audit of the Basic Financial Statements (continued)

Significant Deficiency

Finding 2019-003

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: During the inventory observation testing of the Town, several discrepancies were noted in the counts. The discrepancies were subsequently followed up with to ensure corrections to the general ledger had been made. The corrections had not been reported to the finance department and were not made in the general ledger.

Effect: Errors in financial reporting could occur.

Cause: The Town does not have a process in place to ensure proper physical tracking and updates of inventory balances.

Recommendation: Management should consider increasing the number of physical counts that occur during the year to improve the accuracy in inventory reporting. Management should consider formally documenting policies and control procedures over inventory physical counts and reporting information to the finance department.

Views of Responsible Officials and Planned Corrective Action: Management is aware of the weakness and is reviewing the procedures in place for counting and reconciling inventory.



**Corrective Action Plan
For the Year Ended June 30, 2019**

Significant Deficiency

Finding 2019-001

Name of Contact Person: Rebecca Shuler

Corrective Action: Management is aware of the weakness, but due to the cost benefit analysis, hiring additional personnel does not appear feasible. Management does its best with segregation of duties with the small staff on hand.

Proposed Completion Date: Immediately

Significant Deficiency

Finding 2019-002

Name of Contact Person: Rebecca Shuler

Corrective Action: Management has evaluated the cost benefit and has chosen to engage an external auditor to perform this function. The Town exercises due care in reviewing the financial statements drafted by the external auditor and reconciles the statements to the Town's financial records. The Town is responsible for the accuracy of the audited financial statements.

Proposed Completion Date: Immediately

Significant Deficiency

Finding 2019-003

Name of Contact Person: Rebecca Shuler

Corrective Action: Management has considered increasing the number of physical counts that occur during the year to improve the accuracy in inventory reporting. Management is considering formally documenting policies and control procedures over inventory physical counts and a member of the finance department is going to be included in the process.

Proposed Completion Date: Immediately

TOWN OF HIGHLANDS, NORTH CAROLINA

**SCHEDULE OF PRIOR YEAR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2019**

Significant Deficiency

Finding 2018-001

Status: Repeated as Finding 2019-001

Significant Deficiency

Finding 2018-002

Status: Repeated as Finding 2019-002