

TOWN OF ELON
FINANCIAL STATEMENTS
June 30, 2020

Elon, North Carolina

TOWN OF ELON
NORTH CAROLINA

MAYOR
Jerry R. Tolley

BOARD OF ALDERMEN
Davis Montgomery, Mayor Pro-Tem

Emily Sharpe
Mark. H Greene
Monti Allison
J. Quinn Ray

TOWN OF ELON, NORTH CAROLINA

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June 30, 2020

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Independent Auditor's Report

To the Honorable Mayor
and Members of the Board of Aldermen
Town of Elon, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Elon (the "Town"), North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Elon, North Carolina as of June 30, 2020, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, , the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability, 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 required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

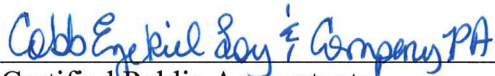
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Elon, North Carolina. The individual fund statements, budgetary schedules, and other schedules, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules, and other schedules, are the responsibility of management and were derived from and relates 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. In our opinion, based on our audit, and the procedures performed as described above, the individual fund 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 December 21, 2020 on our consideration of Town of Elon's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 Town of Elon's internal control over financial reporting and compliance.



Certified Public Accountants

Graham, North Carolina

December 21, 2020

Management's Discussion and Analysis

Town of Elon

As management of the **Town of Elon**, we offer readers of the **Town of Elon's** financial statements this narrative overview and analysis of the financial activities of the **Town of Elon** for the fiscal year ended June 30, 2020. 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

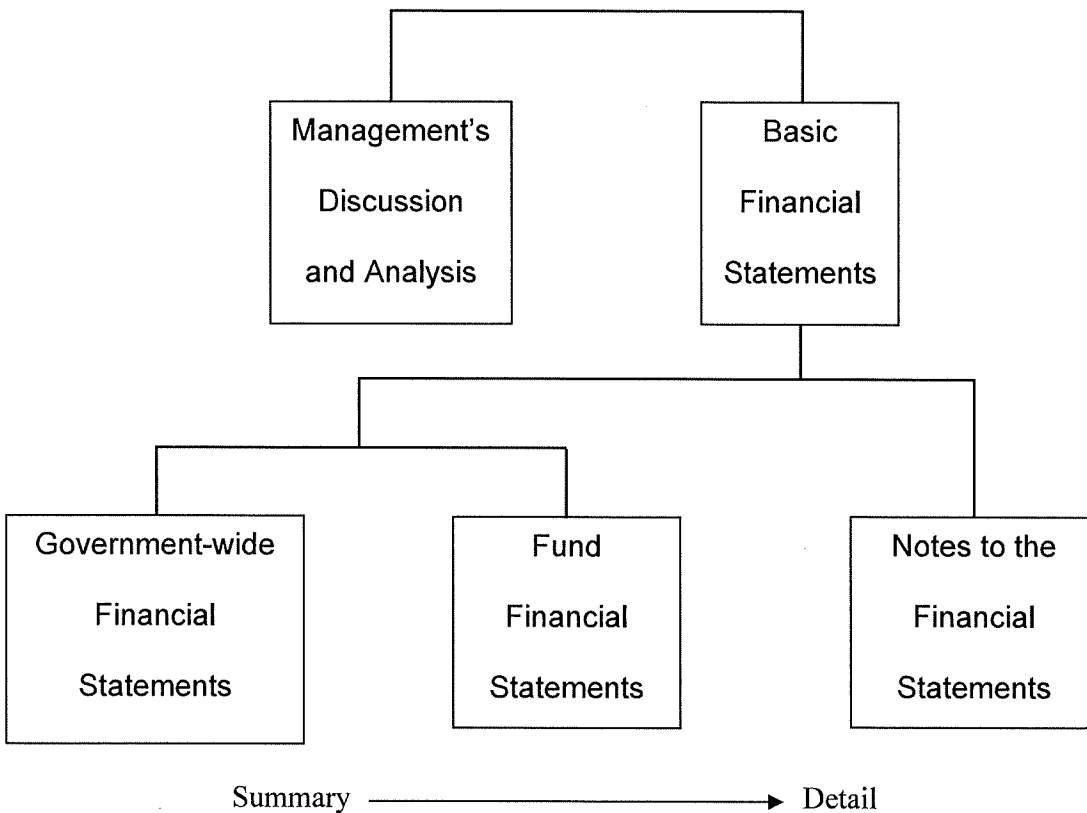
- The assets and deferred outflows of the **Town of Elon** exceeded its liabilities and deferred inflows at the close of the fiscal year by \$21,889,549 (**net position**).
- The government's total net position increased by \$1,566,341 primarily due to an increase of \$1,028,567 in the governmental-type activities and an increase of \$537,774 in the business-type activities net position.
- At the end of the current fiscal year, the **Town of Elon's** governmental funds reported combined ending fund balances of \$7,406,155, an increase of \$699,777 in comparison with the prior year. Approximately 22.6% of this total amount, or \$1,671,716 is non-spendable or restricted.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$5,734,439 or 70.7% of the total General Fund expenditures for the fiscal year.
- The **Town of Elon's** total outstanding debt increased by \$617,437 due to new debt of \$768,000 offset by payments of \$150,563 during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the **Town of Elon's** basic financial statements. The **Town of Elon's** basic financial statements consist of three components: (1) Government-wide financial statements and (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 Elon**.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: (1) the governmental funds statements and (2) the budgetary comparison statements and (3) the proprietary fund statements.

The next section of the basic financial statements is the **Notes**. The notes to the financial statements explain in detail some of the data contained in those statements. 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 deferred outflows of resources and total liabilities and deferred inflows of resources. Measuring net position is one way to gauge the town's financial condition.

The government-wide statements are divided into 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, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer activities.

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

Fund Financial Statements

The fund financial statements (see Figure 1) 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, 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 Town of Elon can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the 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* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Elon 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 Town of Elon citizens, Town of Elon management, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town of Elon 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 of Elon complied with the budget ordinance and whether or not the Town of Elon succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document.

The statement shows four columns: (1) the original budget as adopted by the Board; (2) the final budget as amended by the Board; (3) the actual resources, charges to appropriations, and ending balances in the General Fund; and (4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Fund – The Town of Elon 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 Elon uses enterprise funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

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 are on pages 26-50 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's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 51 of this report.

Government-Wide Financial Analysis

Town of Elon's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 7,527,043	\$ 6,824,293	\$ 4,261,315	\$ 3,583,631	\$ 11,788,358	\$ 10,407,924
Capital assets	8,215,641	6,965,398	4,691,845	4,831,624	12,907,486	11,797,022
Deferred outflows of resources	805,763	893,392	24,974	33,391	830,737	926,783
Total assets and deferred outflows of resources	16,548,447	14,683,083	8,978,134	8,448,646	25,526,581	23,131,729
Long-term liabilities outstanding	2,681,459	1,841,590	278,502	261,516	2,959,961	2,103,106
Other liabilities	129,107	112,477	392,464	284,941	521,571	397,418
Deferred inflows of resources	147,689	167,391	7,811	9,725	155,500	177,116
Total liabilities and deferred inflows of resources	2,958,255	2,121,458	678,777	556,182	3,637,032	2,677,640
Net Position:						
Net investment in capital assets	7,357,866	6,828,854	4,600,299	4,751,796	11,958,165	11,580,650
Restricted	1,559,579	1,753,286	117,614	73,730	1,677,193	1,827,016
Unrestricted	4,672,747	3,979,485	3,581,444	3,066,938	8,254,191	7,046,423
Total net position	\$ 13,590,192	\$ 12,561,625	\$ 8,299,357	\$ 7,892,464	\$ 21,889,549	\$ 20,454,089

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The Town of Elon assets and deferred outflows exceeded liabilities and deferred inflows by \$21,889,549 as of June 30, 2020. The Town of Elon's net position increased by \$1,566,341 for the fiscal year ended June 30, 2020. However, the largest portion (54.63%) reflects the Town of Elon's investment in capital assets (e.g. land, buildings, machinery, and equipment).

The Town of Elon uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Elon's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Elon's net position, \$1,677,193, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$8,254,191 is unrestricted.

One particular aspect of the Town of Elon's operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.90%, which is comparable to the statewide average of 98.78%

Town of Elon Change in Net Position

Figure 3

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 625,517	\$ 609,300	\$ 3,920,110	\$ 3,613,638	\$ 4,545,627	\$ 4,222,938
Operating grants and contributions	496,017	516,210	-	-	496,017	516,210
Capital Grants and contributions	121,000	56,000	(5,274)	-	115,726	56,000
General revenues:						
Property taxes	2,764,102	2,721,641	-	-	2,764,102	2,721,641
Other taxes	3,300,878	3,094,380	-	-	3,300,878	3,094,380
Grants and contributions not restricted to specific programs	532,313	549,832	-	-	532,313	549,832
Other	190,862	130,479	99,561	164,741	290,423	295,220
Total revenues	8,030,689	7,677,842	4,014,397	3,778,379	12,045,086	11,456,221
Expenses:						
General government	1,577,568	1,517,631	-	-	1,577,568	1,517,631
Public safety	3,898,860	3,412,327	-	-	3,898,860	3,412,327
Public works	1,213,962	889,447	-	-	1,213,962	889,447
Recreational	295,103	333,994	-	-	295,103	333,994
Interest	16,629	2,476	-	-	16,629	2,476
Storm Water	-	-	33,483	183,453	33,483	183,453
Water and sewer	-	-	3,443,140	3,864,976	3,443,140	3,864,976
Total expenses	7,002,122	6,155,875	3,476,623	4,048,429	10,478,745	10,204,304
Increase in net position before transfers	1,028,567	1,521,967	537,774	(270,050)	1,566,341	1,251,917
Transfers	-	-	-	-	-	-
Increase in net position	1,028,567	1,521,967	537,774	(270,050)	1,566,341	1,251,917
Net position, July 1	12,561,625	11,039,658	7,892,464	8,162,514	20,454,089	19,202,172
Restatement	-	-	(130,881)	-	(130,881)	-
Net position, July 1 - Restated	12,561,625	11,039,658	7,761,583	8,162,514	20,323,208	19,202,172
Net position, June 30	\$ 13,590,192	\$ 12,561,625	\$ 8,299,357	\$ 7,892,464	\$ 21,889,549	\$ 20,454,089

Governmental activities. Governmental activities increased the Town of Elon's net position by \$1,028,567. Key elements of this increase are as follows:

- Sales taxes and other smaller revenues increased during the budget year.

Business-type activities. Business-type activities increased the Town of Elon's net position by \$537,774. Key elements of this decrease are as follows:

- Collections exceeded cost of services.

Financial Analysis of the Town of Elon's Funds

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

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

The General Fund is the chief operating fund of the Town of Elon. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$5,734,439 while total fund balance increased to \$7,406,155. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 70.7% of total General Fund expenditures and the total fund balance represents 91.4% of total general fund expenditures.

At June 30, 2020, the governmental funds of Town of Elon reported a combined fund balance of \$7,406,155 with a net increase in fund balance of \$699,777. Included in this change in fund balance is an increase in fund balance of the General Fund.

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

Proprietary Funds. The Town of Elon's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$3,442,369, and for the Storm Water Fund, \$139,075. The total change in net position for the Water and Sewer and Storm Water Funds was \$438,104 and \$99,670, respectively. Other factors that concern the finances of this fund have already been addressed in the discussion of the Town of Elon's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Elon's investment in capital assets for its governmental and business-type activities as of June 30, 2020, totals \$12,907,486 (net of accumulated depreciation). These assets include buildings, roads, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions (There were no significant demolitions or disposals):

- Construction in progress for governmental activities assets of \$7,000
- No major demolitions were recorded this year.

Town of Elon's Capital Assets

Figure 4

(net of depreciation)

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 1,394,768	\$ 1,394,768	\$ -	\$ -	\$ 1,394,768	\$ 1,394,768
Construction in progress	7,000	12,412	48,345	-	55,345	12,412
Buildings and systems	354,941	359,052	4,416,378	4,612,682	4,771,319	4,971,734
Improvements other than buildings	27,908	31,910	-	-	27,908	31,910
Machinery and equipment	2,430,753	1,443,702	227,122	218,942	2,657,875	1,662,644
Infrastructure	4,000,271	3,723,554	-	-	4,000,271	3,723,554
Total	<u>\$ 8,215,641</u>	<u>\$ 6,965,398</u>	<u>\$ 4,691,845</u>	<u>\$ 4,831,624</u>	<u>\$ 12,907,486</u>	<u>\$ 11,797,022</u>

Additional information on the Town of Elon's capital assets can be found in Note II.A.4. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2020, the Town of Elon had no outstanding bonds.

As of June 30, 2020, the Town of Elon had installment obligations and capital leases outstanding of \$830,248.

**Outstanding Debt
Figure5**

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Capital Leases	\$ 757,677	\$ 132,983	\$ -	\$ -	\$ 757,677	\$ 132,983
Revolving Loans	-	-	72,571	79,828	72,571	79,828
Total	\$ 757,677	\$ 132,983	\$ 72,571	\$ 79,828	\$ 830,248	\$ 212,811

Town of Elon's Outstanding Debt

The Town of Elon's total debt increased by \$617,437 due to new financing of \$768,000 offset by payments of \$150,563 during the fiscal year.

North Carolina general statutes limit the amount of general obligations debt that a unit of government can issue to 8% of the total assessed value of taxable property located within the government's boundaries. The legal debt margin for the Town of Elon is \$48,683,209.

Additional information regarding the Town of Elon's long-term debt can be found in Note II.B.6.

Economic Factors and Next Year's Budgets and Rates

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

- The town's estimated population has grown to 12,752.
- Elon University has submitted plans for a new Engineering and Physics Building that is planned to be completed by the fall of 2022
- Twin Lakes has a plan under review for a five-story independent living apartment building with 84 units
- A new subdivision currently being built off Shallowford Church Road with 45 lots
- A new subdivision on Manning Avenue is under review that will have over 200 lots.

Budget and Rates

The General Fund FY21 Budget totals \$7,355,198 and the tax rate remains at \$0.45 per \$100 of valuation on taxable property. The budget was scaled back due to uncertainty around the effects that COVID-19 may have on sales tax revenues. We have budgeted for a 20% decrease from FY 19 actual for sales tax and have a list of items that will be requested to be added back with a budget amendment if the sales tax comes in higher than we budgeted. Funding is included for two Police vehicles, phase 3 of the Haggard Avenue corridor study, several replacement radios for Police and Fire, parking lot repairs at Beth Schmidt Park, and a mobile lift for Public Works. There are also restricted cemetery funds budgeted to add a columbarium at Magnolia Cemetery.

The Water and Sewer Fund budget of \$3,731,360 includes an increase of six percent which is four percent above the City of Burlington's two percent increase. The increase will help address future operating and capital needs.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities:

The FY20 Budget contained funds to finish the Land Development Ordinance update. Capital expenses included the purchase of new servers, a Public Works tractor and backhoe, and Parks and Rec and Police vehicles. There was also funding to hire an additional Police Officer.

Business – type Activities: The FY20 budget contained a water and sewer increase of a three percent increase for water and sewer which was one percent more than the City of Burlington's two percent increase to ensure funding is available to maintain the system. Capital expenses included a vacuum trailer and the final phase of the automated meter reading system.

Requests for Information

This report is designed to provide an overview of the Town of Elon 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 Town of Elon, Town Manager, Post Office Box 595; Elon, North Carolina 27244-0595.

BASIC FINANCIAL STATEMENTS

Town of Elon, North Carolina
Statement of Net Position
June 30, 2020

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current Assets:			
Cash and cash equivalents	\$ 5,952,068	\$ 3,324,805	\$ 9,276,873
Prepaid expenses	14,534	3,821	18,355
Taxes receivables (net)	4,562	-	4,562
Accounts receivable (net)	788,320	766,288	1,554,608
Restricted Assets:			
Cash and cash equivalents	767,559	166,401	933,960
Total current assets	7,527,043	4,261,315	11,788,358
Non-current assets:			
Capital assets:			
Land, improvements, and construction in progress	1,401,768	48,345	1,450,113
Other capital assets, net of depreciation	6,813,873	4,643,500	11,457,373
Total capital assets	8,215,641	4,691,845	12,907,486
Total assets	15,742,684	8,953,160	24,695,844
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	805,763	24,974	830,737
Total deferred outflows of resources	805,763	24,974	830,737
LIABILITIES			
Current liabilities:			
Accounts payable	113,563	206,490	320,053
Unearned revenues	-	137,187	137,187
Customer deposits	-	48,787	48,787
Accrued interest payable	15,544	-	15,544
Due within one year	231,000	35,284	266,284
Total current liabilities	360,107	427,748	787,855
Long-term liabilities:			
Net pension liability - LGERS	1,189,640	149,877	1,339,517
Total pension liability - LEO	443,231	-	443,231
Due in more than one year	817,588	93,341	910,929
Total liabilities	2,810,566	670,966	3,481,532
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	144,926	7,811	152,737
Prepaid taxes	2,763	-	2,763
Total deferred inflows of resources	147,689	7,811	155,500
NET POSITION			
Net investment in capital assets	7,357,866	4,600,299	11,958,165
Restricted for:			
Stabilization by State Statute	802,855	-	802,855
Capital reserve	-	117,614	117,614
Public works	600,061	-	600,061
Public safety	156,663	-	156,663
Unrestricted	4,672,747	3,581,444	8,254,191
Total net position	\$ 13,590,192	\$ 8,299,357	\$ 21,889,549

The notes to the financial statements are an integral part of this statement.

Town of Elon, North Carolina
Statement of Activities
For the Year Ended June 30, 2020

Exhibit 2

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Primary government:							
General government	\$ 1,577,568	\$ 67,969	\$ 4,275	\$ -	\$ (1,505,324)	\$ -	\$ (1,505,324)
Public safety	3,898,860	324,179	194,293	56,000	(3,324,388)	-	(3,324,388)
Public works	1,213,962	215,534	297,449	40,000	(660,979)	-	(660,979)
Recreational	295,103	17,835	-	25,000	(252,268)	-	(252,268)
Interest	16,629	-	-	-	(16,629)	-	(16,629)
Total governmental activities (See Note 1)	\$ 7,002,122	\$ 625,517	\$ 496,017	\$ 121,000	\$ (5,759,588)	\$ -	\$ (5,759,588)
Business-type activities:							
Storm water	33,483	133,153	-	-	-	99,670	99,670
Water and sewer	3,443,140	3,786,957	-	-	-	343,817	343,817
Total business-type activities	3,476,623	3,920,110	-	-	-	443,487	443,487
Total primary government	\$ 10,478,745	\$ 4,545,627	\$ 496,017	\$ 121,000	(5,759,588)	443,487	(5,316,101)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					2,764,102	-	2,764,102
Local option sales tax					3,291,310	-	3,291,310
Other taxes and licenses					9,568	-	9,568
Grants and contributions not restricted to specific programs					532,313	-	532,313
Unrestricted investment earnings					93,906	36,615	130,521
Miscellaneous					96,956	57,672	154,628
Transfers					-	-	-
Total general revenues, special items, and transfers					6,788,155	94,287	6,882,442
Change in net position					1,028,567	537,774	1,566,341
Net position, beginning					12,561,625	7,892,464	20,454,089
Restatement					-	(130,881)	(130,881)
Net position - restated					12,561,625	7,761,583	20,323,208
Net position - ending					\$ 13,590,192	\$ 8,299,357	\$ 21,889,549

The notes to the financial statements are an integral part of this statement.

Town of Elon
Balance Sheet
Governmental Funds
June 30, 2020

	MAJOR FUND		
	General	Total Non-Major Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 5,952,068	\$ -	\$ 5,952,068
Prepaid expenses	14,534	-	14,534
Receivables, net			
Taxes	4,562	-	4,562
Accounts	788,320	-	788,320
Restricted cash	767,559	-	767,559
Total assets	<u>\$ 7,527,043</u>	<u>\$ -</u>	<u>\$ 7,527,043</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 113,563	\$ -	\$ 113,563
Total liabilities	<u>113,563</u>	<u>-</u>	<u>113,563</u>
Deferred Inflows of Resources			
Unavailable revenues	4,562	-	4,562
Prepaid taxes	2,763	-	2,763
Total deferred inflows of resources	<u>7,325</u>	<u>-</u>	<u>7,325</u>
Fund balances:			
Restricted for:			
State Statute	802,855	-	802,855
Streets-Powell bill	600,061	-	600,061
Public safety	156,663	-	156,663
Unassigned, General Fund	5,734,439	-	5,734,439
Assigned			
Cemetery care	112,137	-	112,137
Total fund balances	<u>7,406,155</u>	<u>-</u>	<u>7,406,155</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 7,527,043</u>	<u>\$ -</u>	
Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:			
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. (Gross capital assets - \$16,311,871 less accumulated depreciation - \$8,096,230)			
			8,215,641
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position			
			805,763
Liabilities for earned revenues considered deferred inflows of resources in fund statements.			
			4,562
Pension related deferrals			
			(144,926)
Net pension liability - LGERS			
			(1,189,640)
Total pension liability - LEO			
			(443,231)
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds. (Installment purchases - \$757,677 compensated absences - \$290,911 and accrued interest - \$15,544)			
			(1,064,132)
Net position of governmental activities		<u>\$</u>	<u>13,590,192</u>

The notes to the financial statements are an integral part of this statement.

Town of Elon
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2020

	Major Fund		
	General Fund	Total Non-Major Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 2,766,402	\$ -	\$ 2,766,402
Other taxes and licenses	3,301,373	-	3,301,373
Unrestricted intergovernmental	532,313	-	532,313
Restricted intergovernmental	703,253	-	703,253
Sales and services	277,534	-	277,534
Investment earnings	93,906	-	93,906
Miscellaneous	269,331	-	269,331
Total revenues	<u>7,944,112</u>	<u>-</u>	<u>7,944,112</u>
EXPENDITURES			
Current:			
General government	1,497,601	-	1,497,601
Public safety	3,459,496	-	3,459,496
Public works	1,019,959	-	1,019,959
Recreation	242,721	-	242,721
Debt service:			
Principle	150,283	-	150,283
Interest	3,561	-	3,561
Capital outlay	1,732,477	-	1,732,477
Total expenditures	<u>8,106,098</u>	<u>-</u>	<u>8,106,098</u>
Excess (deficiency) of revenues over expenditures	<u>(161,986)</u>	<u>-</u>	<u>(161,986)</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from installment financing	768,000	-	768,000
Sale of capital assets	93,763	-	93,763
Total other financing sources (uses)	<u>861,763</u>	<u>-</u>	<u>861,763</u>
Net change in fund balance	699,777	-	699,777
Fund balances-beginning	6,706,378	-	6,706,378
Fund balances - ending	<u>\$ 7,406,155</u>	<u>\$ -</u>	<u>\$ 7,406,155</u>

The notes to the financial statements are an integral part of this statement.

Town of Elon
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2020

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

Net changes in fund balances - total government funds	\$ 699,777
Governmental funds report capital outlay as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$1,732,477) exceeded depreciation in the current period (\$477,347).	1,255,130
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	301,803
Benefit payments paid and administrative expense for the LEOSSA are not included on the Statement of Activities	47,339
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	
Change in deferred revenue for tax revenues	(2,300)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. (Issuance of debt-(\$768,000), principal expenditures-\$150,283, changes in accrued interest-\$(13,068)	(630,785)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	(66,100)
Pension expense	(576,297)
Total changes in net position of governmental activities	<u>\$ 1,028,567</u>

The notes to the financial statements are an integral part of this statement.

**Town of Elon
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Annual Budget and Actual
For the Year Ended June 30, 2020**

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 2,735,500	\$ 2,705,500	\$ 2,766,402	\$ 60,902
Other taxes and licenses	3,000,000	3,007,500	3,301,373	293,873
Unrestricted intergovernmental	522,000	522,800	532,313	9,513
Restricted intergovernmental	612,665	683,230	703,253	20,023
Sales and services	227,000	270,000	277,534	7,534
Investment earnings	87,500	93,000	93,906	906
Miscellaneous	238,285	260,305	269,331	9,026
Total revenues	<u>7,422,950</u>	<u>7,542,335</u>	<u>7,944,112</u>	<u>401,777</u>
Expenditures:				
Current:				
General Government	2,252,030	2,017,947	1,541,051	476,896
Public Safety	4,513,112	4,547,303	4,376,292	171,011
Public Works	1,578,462	1,998,774	1,741,087	257,687
Recreation	310,300	338,367	293,824	44,543
Debt Service:				
Principle retirement	87,166	150,225	150,283	(58)
Interest and other charges	-	3,561	3,561	-
Total expenditures	<u>8,741,070</u>	<u>9,056,177</u>	<u>8,106,098</u>	<u>950,079</u>
Revenues over (under) expenditures	<u>(1,318,120)</u>	<u>(1,513,842)</u>	<u>(161,986)</u>	<u>1,351,856</u>
Other financing sources (uses):				
Proceeds from installment financing	768,000	768,000	768,000	-
Sale of surplus items	50,000	93,250	93,763	513
Total other financing sources (uses):	<u>818,000</u>	<u>861,250</u>	<u>861,763</u>	<u>513</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>(500,120)</u>	<u>(652,592)</u>	<u>699,777</u>	<u>\$ 1,352,369</u>
Fund balances, appropriated	<u>500,120</u>	<u>652,592</u>		
Fund balances, beginning as previously reported	<u>\$ -</u>	<u>\$ -</u>	<u>6,706,378</u>	
Fund balances, ending			<u>\$ 7,406,155</u>	

The notes to the financial statements are an integral part of this statement.

Town of Elon
Statement of Fund Net Position
Proprietary Funds
June 30, 2020

	Enterprise Fund		
	Water and Sewer Fund	Non-Major Storm Water Fund	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,184,066	\$ 140,739	\$ 3,324,805
Prepaid expenses	3,821	-	3,821
Accounts receivable, net	766,288	-	766,288
Inventories	-	-	-
Restricted cash	166,401	-	166,401
Total current assets	<u>4,120,576</u>	<u>140,739</u>	<u>4,261,315</u>
Noncurrent assets:			
Capital assets:			
Land and other non-depreciable assets	29,370	18,975	48,345
Other capital assets, net of depreciation	4,643,500	-	4,643,500
Capital assets(net)	<u>4,672,870</u>	<u>18,975</u>	<u>4,691,845</u>
Total assets	<u>8,793,446</u>	<u>159,714</u>	<u>8,953,160</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	24,974	-	24,974
Total deferred outflows of resources	<u>24,974</u>	<u>-</u>	<u>24,974</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	185,851	20,639	206,490
Due to other funds	-	-	-
Deferred revenue	137,187	-	137,187
Customer deposits	48,787	-	48,787
Compensated absences	28,027	-	28,027
Installment purchase payable - current	7,257	-	7,257
Total current liabilities	<u>407,109</u>	<u>20,639</u>	<u>427,748</u>
Noncurrent liabilities:			
Other noncurrent liabilities:			
Compensated absences	28,027	-	28,027
Net pension liability	149,877	-	149,877
Installment purchase payable - noncurrent	65,314	-	65,314
Total noncurrent liabilities	<u>243,218</u>	<u>-</u>	<u>243,218</u>
Total liabilities	<u>650,327</u>	<u>20,639</u>	<u>670,966</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	7,811	-	7,811
Total deferred inflows of resources	<u>7,811</u>	<u>-</u>	<u>7,811</u>
NET POSITION			
Net investment in capital assets	4,600,299	-	4,600,299
Capital Reserve	117,614	-	117,614
Unrestricted	3,442,369	139,075	3,581,444
Net position of business-type activities	<u>\$ 8,160,282</u>	<u>\$ 139,075</u>	<u>\$ 8,299,357</u>

The notes to the financial statements are an integral part of this statement.

Town of Elon
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2020

	Enterprise Fund		
	Water and Sewer Fund	Non-Major Storm Water Fund	Total
OPERATING REVENUES			
Charges for services	\$ 3,743,627	\$ 133,153	\$ 3,876,780
Water and sewer taps	24,049	-	24,049
Other operating revenues	19,281	-	19,281
Total operating revenues	<u>3,786,957</u>	<u>133,153</u>	<u>3,920,110</u>
OPERATING EXPENSES			
Salaries and employee benefits	399,702	-	399,702
Supplies	8,514	-	8,514
Equipment maintenance	361	-	361
System maintenance	19,625	-	19,625
Vehicle maintenance	4,661	-	4,661
Burlington sewer treatment	1,272,915	-	1,272,915
Gibsonville sewer treatment	489,621	-	489,621
Burlington water purchased	896,520	-	896,520
Gibsonville water purchased	2,042	-	2,042
Contracted services	26,307	-	26,307
Engineering	-	22,488	22,488
Other operating expenditures	71,892	10,995	82,887
Depreciation	250,980	-	250,980
Total operating expenses	<u>3,443,140</u>	<u>33,483</u>	<u>3,476,623</u>
Operating loss	<u>343,817</u>	<u>99,670</u>	<u>443,487</u>
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	36,615	-	36,615
Interest on long-term debt	-	-	-
System fees	43,175	-	43,175
Antenna fee location	19,771	-	19,771
Other nonoperating revenue	-	-	-
Total nonoperating revenues (expenses)	<u>99,561</u>	<u>-</u>	<u>99,561</u>
Loss before contributions and transfers	<u>443,378</u>	<u>99,670</u>	<u>543,048</u>
Contributed capital	-	-	-
(Loss) on disposition	(5,274)	-	(5,274)
Transfer to other funds	-	-	-
Change in net position	<u>438,104</u>	<u>99,670</u>	<u>537,774</u>
Total net position - previously reported	7,853,059	39,405	7,892,464
Restatement	(130,881)	-	(130,881)
Total net position - beginning restated	<u>7,722,178</u>	<u>39,405</u>	<u>7,761,583</u>
Total net position, ending	<u>\$ 8,160,282</u>	<u>\$ 139,075</u>	<u>\$ 8,299,357</u>

The notes to the financial statements are an integral part of this statement.

Town of Elon
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020

	Enterprise Fund		
	Water and Sewer Fund	Non-Major Storm Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 3,891,864	\$ 133,153	\$ 4,025,017
Cash paid for goods and services	(2,845,039)	(12,844)	(2,857,883)
Cash paid to or on behalf of employees for services	(368,956)	-	(368,956)
Net change in customer deposits	4,764	-	4,764
Other operating revenues	19,281	-	19,281
Net cash provided by operating activities	<u>701,914</u>	<u>120,309</u>	<u>822,223</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Decrease in interfund payables	-	-	-
Total cash flows from noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(97,500)	(18,975)	(116,475)
Principle paid on long-term debt	(7,258)	-	(7,258)
Other capital revenues	62,946	-	62,946
Net cash used by capital and related financing activities	<u>(41,812)</u>	<u>(18,975)</u>	<u>(60,787)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	<u>36,615</u>	<u>-</u>	<u>36,615</u>
Net increase (decrease) in cash and cash equivalents	696,717	101,334	798,051
Balances, beginning	<u>2,653,750</u>	<u>39,405</u>	<u>2,693,155</u>
Balances, ending	<u>\$ 3,350,467</u>	<u>\$ 140,739</u>	<u>\$ 3,491,206</u>
Reconciliation of cash and cash equivalents:			
Cash and cash equivalents - Current	\$ 3,184,066	\$ 140,739	\$ 3,324,805
Cash and cash equivalents - Restricted	166,401	-	166,401
	<u>\$ 3,350,467</u>	<u>\$ 140,739</u>	<u>\$ 3,491,206</u>

The notes to the financial statements are an integral part of this statement.

Town of Elon
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2020

	Enterprise Fund		
	Water and Sewer Fund	Non-Major Storm Water Fund	Total
Reconciliation of operating income to net cash provided by operating activities			
Operating income	\$ 343,817	\$ 99,670	\$ 443,487
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	250,980	-	250,980
Changes in assets and liabilities:			
Decrease in accounts receivable	124,190	-	124,190
Increase in prepaid expense	(3,821)	-	(3,821)
Decrease in deferred inflows of resources for pensions	(1,914)	-	(1,914)
Increase in pension liability	16,529	-	16,529
Decrease in accounts payable and accrued liabilities	(48,762)	20,639	(28,123)
Increase in customer deposits	4,764	-	4,764
Decrease in deferred outflows of resources for pensions	8,417	-	8,417
Increase in accrued vacation pay	7,714	-	7,714
Total adjustments	358,097	20,639	378,736
Net cash provided by operating activities	\$ 701,914	\$ 120,309	\$ 822,223

The notes to the financial statements are an integral part of this statement.

TOWN OF ELON, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS

For The Fiscal Year Ended June 30, 2020

I. Summary of Significant Accounting Policies:

The accounting policies of the Town of Elon conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town of Elon is a municipal corporation which is governed by an elected mayor and a five-member Board of Aldermen. As required by generally accepted accounting principles, these financial statements present all funds and account groups of the Town of Elon.

B. Basis of Presentation - Fund Accounting

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – 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 principle activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies result from non-exchange transactions. Other non-operating revenues are ancillary services such as investment earnings.

The Town reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

The Town reports the following major enterprise funds:

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations. This fund also covers acquisition and/or construction of infrastructure projects, sewer projects and utility capital reserve.

The Town reports the following non-major enterprise fund:

Storm Water Fund. This fund is used to account for the federally mandated program of storm water system management, which is supported by a town-wide storm water fee.

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 modified accrual basis of accounting.

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using 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, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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 fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. 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.

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

Sales taxes and certain intergovernmental revenues, such as 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 of Elon because the tax is levied by Alamance County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost –reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there 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 and the Enterprise Fund. All annual appropriations lapse at the fiscal-year end. Project ordinances are adopted for the Capital Projects Fund and the Water and Sewer Capital Project Funds. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the function level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$5,000. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. 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 generally reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. The NCCMT- Term Portfolio is a bond fund, has no rating and is measured at fair value. As of June 30, 2020, the Term Portfolio has a duration of .15 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented with a maturity of less than 6 months.

2. Cash and Cash Equivalents

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

3. Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purpose outlined in G. S. 136-41.1 through 136-41.4.

Town of Elon Restricted Cash

Governmental Activities

General Fund

Streets	\$ 605,656
Public Safety	<u>161,903</u>
Total Governmental Activities	<u>\$ 767,559</u>

Business-type Activities

Water and Sewer Fund

Customer deposits	\$ 48,787
Capital Reserve	<u>117,614</u>
Total Business-type Activities	<u>\$ 166,401</u>

Total Restricted Cash	<u>\$ 933,960</u>
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4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2019. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. 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.

6. 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 when purchased.

The inventories of the Town's enterprise fund consists of materials and supplies held for subsequent use. The cost of these inventories are 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 items are used.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000 for all capital assets. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at their 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 water and sewer 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 are not capitalized.

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

Asset Class	Estimated Useful Lives
Infrastructure	50
Buildings	40
Improvements	25
Vehicles	10
Furniture and equipment	10
Computer equipment	3

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometime 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 one item that meets this criterion, deferrals made to the pension plan in the 2020 fiscal year. In addition to liabilities, the statement of financial 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 meet the criterion for this category - prepaid taxes, property taxes receivable, and pension deferrals.

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days, the equivalent to 240 hours earned vacation leave, with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

11. 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 represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

Nonspendable 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 by creditors or imposed by law.

Restricted for Stabilization by State statute - North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designated to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities,*

encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is “imposed by law through constitutional provisions or enabling legislation.” RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

Restricted for 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.

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

Assigned fund balance - portion of fund balance that the Town intends to use for a specific purpose.

Assigned for Cemetery Care - portion of fund balance that has been budgeted by the Board for care of the Cemetery.

Unassigned fund balance - the portion of fund balance that has not been 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 hierarchy: bond proceeds, federal funds, State funds, local non-town funds, 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.

The Town of Elon has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 35% of budgeted expenditures. Any portion of the general fund balance in excess of 40% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Town in a future budget.

12. Defined Benefit Cost-Sharing Plans

For purposes of measuring the 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 Employees’ Retirement System (LGERS) and additions to/deductions from LGERS’ fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Elon’s employer contributions are recognized when due and the Town of Elon 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.

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (FRSWPF) and additions to/deductions from FRSWPF's fiduciary net position have been determined on the same basis as they are reported by FRSWPF. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

II. Detail Notes on All Funds

A. Assets

1. 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 Town'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 agent in the Town's 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 the escrow agent. Because of the inability to measure the exact amounts 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 formal policy regarding custodial 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.

At June 30, 2020, the Town's deposits had a carrying amount of \$1,084,996 and a bank balance of \$1,363,464. Of the bank balance, \$250,000 was covered by federal depository insurance. The remaining bank balance of \$1,113,464 was collateralized under the Pooling Method.

The Town had \$575 cash on hand at June 30, 2020.

2. Investments

At June 30, 2020, the Town's investment balances were as follows:

Investment Type	Valuation Measurement Method	Book Value At 6/30/2020	Maturity	Rating
NC Capital Management Trust - Government Portfolio	Fair Value Level 1	\$5,056,317	N/A	AAAm
NC Capital Management Trust – Term Portfolio	Fair Value Level I	\$4,068,945	0.15 years ^a	Unrated
Total:		\$9,125,262		

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

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

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from interest rates, the Town's investment policy limits at least half of the Town's investment portfolio to maturities of less than 12 months. Also, the Town's investment policy requires purchases of securities to be laddered with staggered maturity dates and limits all securities to a final maturity of no more than two years.

Credit Risk. The Town's investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2020. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

^a *This is the duration for the Term Portfolio*

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in Exhibit 1, the Combined Balance Sheet, are net of the following allowances for doubtful accounts:

<u>Funds</u>	<u>June 30,</u> <u>2020</u>
General Fund:	
Taxes receivable	\$ 10,148
Accounts receivable	39,861
Enterprise Fund	<u>34,865</u>
Total	<u>\$ 84,874</u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2020 was as follows:

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u> <u>Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,394,768	\$ -	\$ -	\$ 1,394,768
Construction in progress	<u>12,412</u>	<u>419,991</u>	<u>425,403</u>	<u>7,000</u>
Total capital assets not being depreciated	<u>1,407,180</u>	<u>419,991</u>	<u>425,403</u>	<u>1,401,768</u>
Capital assets being depreciated:				
Buildings	1,331,958	17,207	-	1,349,165
Equipment	5,680,963	1,295,279	409,544	6,566,698
Infrastructure	4,574,137	425,403	-	4,999,540
Land improvements	<u>1,994,700</u>	<u>-</u>	<u>-</u>	<u>1,994,700</u>
Total capital assets being depreciated	<u>13,581,758</u>	<u>1,737,889</u>	<u>409,544</u>	<u>14,910,103</u>
Less accumulated depreciation for:				
Buildings	972,906	21,318	-	994,224
Equipment	4,237,261	303,342	404,658	4,135,945
Infrastructure	850,583	148,686	-	999,269
Land improvements	<u>1,962,790</u>	<u>4,002</u>	<u>-</u>	<u>1,966,792</u>
Total capital assets being depreciated	<u>8,023,540</u>	<u>477,348</u>	<u>404,658</u>	<u>8,096,230</u>
Total capital assets being depreciated, net	<u>5,558,218</u>			<u>6,813,873</u>
Governmental activity capital assets, net	<u>\$ 6,965,398</u>			<u>\$ 8,215,641</u>

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

General government	\$ 24,179
Public safety	240,018
Public works	170,305
Recreation	<u>42,845</u>
Total depreciation expense	<u>\$ 477,347</u>

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Capital assets not being depreciated:				
Construction in progress	\$ -	\$ 48,345	\$ -	\$ 48,345
Total capital assets not being depreciated	-	48,345	-	48,345
Capital assets being depreciated:				
Plant and distribution system	9,560,921	-	-	9,560,921
Furniture and maintenance equipment	359,969	68,130	27,298	400,801
Vehicles	274,987	-	10,000	264,987
Total capital assets being depreciated	10,195,877	68,130	37,298	10,226,709
Less accumulated depreciation for:				
Plant and distribution system	4,948,239	196,304	-	5,144,543
Furniture and maintenance equipment	192,886	32,445	22,024	203,307
Vehicles	223,128	22,231	10,000	235,359
Total capital assets being depreciated	5,364,253	250,980	\$ 32,024	5,583,209
Total capital assets being depreciated, net	4,831,624			4,643,500
Business-type activities capital assets, net	<u>\$ 4,831,624</u>			<u>\$ 4,691,845</u>

B. Liabilities

1. Pension Plan Obligations

a. Local Government Employees' Retirement System

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

The plan does not provide for automatic 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 age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Elon employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Elon's contractually required contribution rate for the year ended June 30, 2020, was 9.70% of compensation for law enforcement officers and 8.95% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Elon were \$301,803 for the year ended June 30, 2020.

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

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

At June 30, 2020, the Town reported a liability of \$1,339,517 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019 (measurement date), the Town's proportion was 0.049%, which was an increase of 0.001% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$587,294. At June 30, 2020, 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	\$ 229,359	\$ -
Changes of assumptions	218,319	-
Net difference between projected and actual earnings on pension plan investments	32,673	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	2,990	23,769
Town contributions subsequent to the measurement date	301,803	-
Total	<u>\$ 785,144</u>	<u>\$ 23,769</u>

\$301,803 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2021	\$ 228,437
2022	65,223
2023	128,053
2024	37,860
2025	-
Thereafter	-

Actuarial Assumptions. The total pension liability in the December 31, 2018 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, including inflation and productivity factor
Investment rate of return	7.00 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, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward

yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2019 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	100%	

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.

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

	1%	Discount	1%
	Decrease	Rate	Increase
	(6.00%)	(7.00%)	(8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 3,063,721	\$ 1,339,517	\$ (93,645)

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

b. Law Enforcement Officers Special Separation Allowance

1. *Plan Description.*

The Town of Elon administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to 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.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2018, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>16</u>
Total	<u>19</u>

2. *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 following criteria which are outlined in GASB Statement 73.

3. *Actuarial Assumptions*

The entry age actuarial cost method was used in the December 31, 2018 valuation. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Investment rate of return	3.26 percent, net of investment expense, including inflation

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2018.

Mortality rates are based on the RP-2014 Mortality tables projected to the valuation data using MP-2015.

4. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. The Town paid \$47,339 as benefits came due for the reporting period.

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

At June 30, 2020, the Town reported a total pension liability of \$443,231. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the Town recognized pension expense of \$172.

	<u>Deferred Outflows of</u>	<u>Deferred Inflows of</u>
Differences between expected and actual experience	\$ -	\$ 116,151
Changes of assumptions	21,923	12,817
Benefit payments and plan administrative expenses made subsequent to the measurement date	<u>23,670</u>	<u>-</u>
Total	<u><u>\$ 45,593</u></u>	<u><u>\$ 128,968</u></u>

\$23,670 paid as benefits came due subsequent to the measurement date have been reported as deferred outflows of resources. Other amount reported as deferred outflows and deferred inflows of resources to pensions will be recognized in pension expense as follows:

Year ended June 30:

2021	\$ (34,351)
2022	(32,897)
2023	(25,395)
2024	(11,916)
2025	(2,486)
Thereafter	-

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 3.26 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 (2.26 percent) or 1-percentage-point higher (4.26 percent) than the current rate:

	<u>1% Decrease (2.26%)</u>	<u>Discount Rate (3.26%)</u>	<u>1% Increase (4.26%)</u>
Total pension liability	\$ 473,471	\$ 443,231	\$ 415,101

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

	2020
Beginning balance	\$ 482,453
Service Cost	17,823
Interest on the total pension liability	16,700
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	(37,342)
Changes of assumptions or other input	10,936
Benefit payments	(47,339)
Other changes	-
Ending balance of the total pension liability	<u>\$ 443,231</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, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

	LGERS	LEOSSA	Total
Pension Expense	\$ 587,294	\$ 172	\$ 587,466
Pension Liability	1,339,517	443,231	1,782,748
Proportionate share of the net pension liability	0.04900%	n/a	-
Deferred of Outflows of Resources			
Differences between expected and actual experience	229,359	-	229,359
Changes in assumptions	218,319	21,923	240,242
Net differences between projected and actual earnings on plan investments	32,673	-	32,673
Changes in proportionate and differences between contributions and proportionate share of contributions	2,990	-	2,990
Benefit payments and administrative costs paid subsequent to the measurement date	301,803	23,670	325,473
Deferred of Inflow of Resources			
Differences between expected and actual experience	-	116,151	116,151
Changes in assumptions	-	12,817	12,817
Net differences between projected and actual earnings on plan investments	23,769	-	23,769
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

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

The Town made contributions for the year ended June 30, 2020 of \$76,267 which consisted of \$49,647 from the Town and \$26,620 from the law enforcement officers. The Town also contributed to the Supplemental Retirement Income Plan for its general employees. The general employees also made voluntary contributions to the plan. Contributions for general employees for the year ended June 30, 2020 were \$157,473 which consisted of \$107,822 from the Town and \$49,651 from the general employees.

d. Firefighter's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Elon, to the Firefighter's and Rescue Squad Workers' Pension Fund (FRSWPF), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 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 Firefighter's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Fund. 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.

Benefits Provided. FRSWPF provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefits at age 55 with 20 years of creditable service as a firefighter or rescue squad worker and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefits will receive the amount paid by the member and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

Contributions. Plan members are required to contribute \$10 per month to the Fund. The State, a nonemployer contributor, funds the plan through appropriations. The Town does not contribute to the Fund. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ending June 30, 2020, the State contributed \$18,302,000 to the plan. The Town of Elon's proportionate share of the State's contribution is \$8,394.

Refunds of Contributions – Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by FRSWPF.

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

At June 30, 2020, the Town reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the Town through its appropriations to the FRSWPF. The total portion of the net pension liability that was associated with the Town and supported by the State was \$16,642. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the Town is not projected to make any future contributions to the plan, its proportionate share at June 30, 2020 and at June 30, 2019 was 0%.

For the year ended June 30, 2020, the Town recognized pension expense of \$8,761 and revenue of \$8,761 for support provided by the State. At June 30, 2020, the Town reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Actuarial Assumptions. The total pension liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	Not applicable
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

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.

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.

2. Other Employment Benefits

The Town has elected to provide death benefits to employees 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 month's salary in a row during the 24 months prior to the 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.

For the fiscal year ended June 30, 2020, the Town made contributions to the State for death benefits of \$893. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.040% and 0.00% of covered payroll, respectively.

3. Deferred Outflows and Inflows of Resources

Deferred outflows of resources reported on the Statement of Net Position is comprised of the following:

<u>Sources</u>	<u>Amount</u>
Differences between expected and actual experience	\$ 229,359
Changes in assumptions	240,242
Net difference between projected and actual earnings on plan investments	32,673
Changes in proportion and differences between contributions and proportionate share of contributions	2,990
Benefit payments and administrative expenses for LEOSA made subsequent to measurement date	<u>325,473</u>
Total	<u>\$ 830,737</u>

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Prepaid taxes (General Fund)	\$ 2,763	\$ 2,763
Taxes receivable, less penalties (General Fund)	-	4,562
Changes in assumptions	12,817	-
Differences between expected and actual experience	116,151	-
Net differences between projected and actual earnings on plan investments	<u>23,769</u>	<u>-</u>
	<u>\$ 155,500</u>	<u>\$ 7,325</u>

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town carries commercial coverage for these risks of loss. There have been no significant reductions in insurance coverage in the prior year, and, settled claims have not exceeded insurance coverage in any of the past three fiscal years.

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 employees that have access to funds are each bonded with a separate \$10,000 bond and the finance officer is bonded with a separate \$50,000 bond.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2020, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Long-Term Obligations

a. Capital Leases

The Town has entered into agreements to lease police vehicles, computer equipment and vehicles. The lease agreements qualify as capital leases for accounting purposes and, therefore, have been recorded at the present value of the future minimum lease payments as of the date of their inception.

One agreement was executed on October 10, 2013 and requires 7 payments of \$21,766. Title passes to the Town at the end of the lease term. This lease was paid in full at June 30, 2020. A second agreement was executed on September 23, 2014 and requires 7 payments of \$57,317. Title passes to the town at the end of the lease term agreement. This lease was paid in full at June 30, 2020. A third agreement was executed on October 9, 2019 and requires 10 annual payments ranging from \$85,544 to \$85,739. Title passes to the Town at the end of the lease term agreement.

The following is an analysis of the assets recorded under capital leases at June 30, 2020:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Equipment	\$ 676,782	\$ 22,559	\$ 654,223
Total	\$ 676,782	\$ 22,559	\$ 654,223

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2020 were as follows:

Year Ending June 30,	Governmental Long-Term Debt
2021	\$ 85,544
2022	85,449
2023	85,979
2024	85,468
2025	85,936
Therefore	<u>429,399</u>
Total minimum lease payments	\$ 857,775
Less: Amount representing interest	<u>100,098</u>
Present value of minimum lease payments	<u>\$ 757,677</u>

At June 30, 2020, the Town of Elon had a legal debt margin of \$48,683,209.

b. Revolving Loan

The Town entered into an agreement with the Department of Environment and Natural resources for an ARRA loan for \$290,583. The term of the loan shall not exceed 20 years at an interest rate of zero percent per annum. Principal equivalent to 1/2 of the total project cost of \$145,291 were forgiven. Payment is \$7,257 for 20 years.

c. Changes in Long-Term Liabilities

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020	Current Portion of Balance
Governmental activities:					
Capitalized leases	\$ 132,983	\$ 768,000	\$ 143,306	\$ 757,677	\$ 85,544
Compensated absences	224,811	130,798	64,698	290,911	145,456
Net pension liability (LGERS)	1,001,343	188,297	-	1,189,640	-
Total pension liability (LEO)	<u>482,453</u>	<u>-</u>	<u>39,222</u>	<u>443,231</u>	<u>-</u>
Governmental activity long-term liabilities	<u>\$ 1,841,590</u>	<u>\$1,087,095</u>	<u>\$ 103,920</u>	<u>\$ 2,681,459</u>	<u>\$ 231,000</u>
Business-type activities:					
Revolving loan	\$ 79,828	\$ -	\$ 7,257	\$ 72,571	\$ 7,257
Net pension liability (LGERS)	133,348	16,529	-	149,877	-
Compensated absences	<u>48,340</u>	<u>7,714</u>	<u>-</u>	<u>56,054</u>	<u>28,027</u>
Business-type activities long-term liabilities	<u>\$ 261,516</u>	<u>\$ 24,243</u>	<u>\$ 7,257</u>	<u>\$ 278,502</u>	<u>\$ 35,284</u>

C. Fund Balance

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	\$ 7,406,155
Less:	
Stabilization by State Statute	802,855
Streets	600,061
Public safety	156,663
Committed:	
Cemetery Care - Assigned	112,137
Remaining Capital/Fund Balance Policy	<u>5,734,439</u>
Remaining Fund Balance	<u>\$ -</u>

D: Prior Period Adjustment

During the fiscal year ended June 30, 2020, it was discovered that the pension expense had been understated for the Water and Sewer Fund as of June 30, 2019. Therefore, an adjustment to the beginning net position to adjust for the overstatement was recorded. This resulted in the beginning net position of the Water and Sewer Fund being reduced by \$130,881. This adjustment also affects the beginning net position for the business-type activities in the government-wide statements.

III. Summary Disclosure of Significant Contingencies:

Federal and State Assisted Programs

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

Town of Elon, North Carolina
Town of Elon's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Six Fiscal Years *

Local Government Employees' Retirement System

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Town of Elon's proportion of the net pension liability (asset) (%)	0.04905%	0.04783%	0.04764%	0.05044%	0.04504%
Town of Elon's proportion of the net pension liability (asset) (\$)	\$ 1,339,517	\$ 1,134,691	\$ 727,807	\$ 1,070,506	\$ 212,145
Town of Elon's covered-employee payroll	\$ 3,318,478	\$ 3,149,372	\$ 2,854,694	\$ 2,513,574	\$ 2,513,574
Town of Elon's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	40.37%	36.03%	25.50%	42.59%	8.44%
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	91.63%	94.18%	91.47%	98.09%

	<u>2015</u>
Town of Elon's proportion of the net pension liability (asset) (%)	0.04504%
Town of Elon's proportion of the net pension liability (asset) (\$)	\$ (265,622)
Town of Elon's covered-employee payroll	\$ 2,365,802
Town of Elon's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(11.23)%
Plan fiduciary net position as a percentage of the total pension liability**	102.64%

* 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 Elon, North Carolina
Town of Elon's Contributions
Required Supplementary Information
Last Six Fiscal Years**

Local Government Employees' Retirement System

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Contractually required contribution	\$ 301,803	\$ 252,386	\$ 221,113	\$ 189,824	\$ 171,357
Contributions in relation to the contractually required contribution	<u>301,803</u>	<u>252,386</u>	<u>221,113</u>	<u>189,824</u>	<u>171,357</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Elon's covered-employee payroll	\$ 3,318,478	\$ 3,149,372	\$ 2,854,694	\$ 2,780,651	\$ 2,513,574
Contributions as a percentage of covered-employee payroll	9.09%	8.01%	7.75%	6.83%	6.82%
	<u>2015</u>				
Contractually required contribution	\$ 169,981				
Contributions in relation to the contractually required contribution	<u>169,981</u>				
Contribution deficiency (excess)	<u>\$ -</u>				
Town of Elon's covered-employee payroll	\$ 2,365,802				
Contributions as a percentage of covered-employee payroll	7.18%				

Town of Elon, North Carolina
Town of Elon's Proportionate Share of Net Pension Liability
Required Supplementary Information
Last Five Fiscal Years *

Firefighters' and Rescue Squad Workers' Pension

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Town of Elon's proportionate share of the net pension liability (%)	0.00%	0.00%	0.00%	0.00%	0.00%
Town of Elon's proportionate share of the net pension liability (\$)	\$ -	\$ -	\$ -	\$ -	\$ -
State's proportionate share of the net pension liability associated with Town of Elon	<u>16,642</u>	<u>23,012</u>	<u>20,573</u>	<u>12,736</u>	<u>12,644</u>
Total	<u>\$ 16,642</u>	<u>\$ 23,012</u>	<u>\$ 20,573</u>	<u>\$ 12,736</u>	<u>\$ 12,644</u>
Town of Elon's covered-employee payroll	\$968,198	\$917,023	\$849,259	\$769,206	\$680,531
Town of Elon's proportionate share of the net pension liability as a percentage of its covered-employee payroll	N/A	2.42%	2.42%	1.66%	1.86%
Plan fiduciary net position as a percentage of the total pension liability	89.69%	89.69%	89.35%	84.94%	91.40%

* The amounts presented for the prior fiscal year.

TOWN OF ELON, NORTH CAROLINA
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 482,453	\$ 652,976	\$ 652,976	\$ 687,829
Service cost	17,823	20,594	-	21,879
Interest on total pension liability	16,700	17,966	-	23,359
Change of benefit terms	-	-	-	-
Difference between expected and actuarial experience in the measurement	(37,342)	(85,979)	-	-
Changes of assumptions and other inputs	10,936	(15,013)	-	(13,066)
Benefits payments	(47,339)	(47,339)	-	(67,025)
Other	-	(60,752)	-	-
Ending balance of the total pension liability	<u>\$ 443,231</u>	<u>\$ 482,453</u>	<u>\$ 652,976</u>	<u>\$ 652,976</u>

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

TOWN OF ELON, NORTH CAROLINA
SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 443,231	\$ 482,453	\$ 592,224	\$ 652,976
Covered payroll	934,958	996,380	942,917	1,076,303
Total pension liability as a percentage of covered payroll	47.41%	48.42%	62.81%	60.67%

Notes to the schedules:

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

**TOWN OF ELON, NORTH CAROLINA
GENERAL FUND
BALANCE SHEET
June 30, 2020**

June 30,
2020

ASSETS

Cash and cash equivalents	\$ 5,952,068
Prepaid expenses	14,534
Receivables (net):	
Taxes	4,562
Accounts	788,320
Restricted cash	<u>767,559</u>
Total Assets	<u>\$ 7,527,043</u>

LIABILITIES AND FUND BALANCES

LIABILITIES:

Accounts payable and accrued liabilities	\$ 113,563
Unavailable revenues	<u>7,325</u>
Total Liabilities	<u>120,888</u>

FUND BALANCES:

Restricted:	
Stabilization by State Statute	802,855
Powell Bill	600,061
Public Safety	156,663
Assigned:	
Cemetery Care	112,137
Unassigned	<u>5,734,439</u>
Total Fund Balances	<u>7,406,155</u>
Total Liabilities and Fund Balances	<u>\$ 7,527,043</u>

**Town of Elon, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For The Year Ended June 30, 2020**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes		\$ 2,762,949	
Penalties and interest		3,453	
Total	\$ 2,705,500	2,766,402	\$ 60,902
Other taxes and licenses:			
Local option sales tax		3,291,310	
Solid waste tax		9,568	
Privilege licenses		495	
Total	3,007,500	3,301,373	293,873
Unrestricted intergovernmental:			
Payment in lieu of taxes		6,500	
Utility franchise tax		466,085	
Beer and wine tax		54,602	
Tax refunds		5,126	
Total	522,800	532,313	9,513
Restricted intergovernmental:			
On-behalf of payments - Fire		8,761	
Burlington/Graham MPO		40,000	
Federal asset foreclosure		60,187	
FEMA		8,145	
Fire District Tax		296,856	
Powell Bill allocation		289,304	
Total	683,230	703,253	20,023

(continued)

Town of Elon, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For The Year Ended June 30, 2020

	Budget	Actual	Variance Positive (Negative)
Revenues:(continued)			
Sales and services:			
Donation - Fire Department - Twin Lakes		56,000	
Cemetery		6,000	
Solid waste		215,534	
	<u>270,000</u>	<u>277,534</u>	<u>7,534</u>
Investment earnings:			
Investment earnings		85,780	
Investment earnings - state street aid		8,126	
Total	<u>93,000</u>	<u>93,906</u>	<u>906</u>
Miscellaneous:			
Parking violation penalties		18,562	
Recreation fees		11,835	
Planning/Zoning Fees		3,219	
Code Enforcement Fees		4,858	
Miscellaneous		67,476	
Impact Alamance Grant		25,000	
Court awarded special fund		4,275	
Donation - Elon University		134,106	
Total	<u>260,305</u>	<u>269,331</u>	<u>9,026</u>
Total revenues	<u>7,542,335</u>	<u>7,944,112</u>	<u>401,777</u>

(continued)

Town of Elon, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For The Year Ended June 30, 2020

	Budget	Actual	Variance Positive (Negative)
Expenditures:			
General Government:			
Administration:			
Salaries and employee benefits		570,546	
Other operating expenditures		268,463	
Capital outlay		27,385	
Total		<u>866,394</u>	
Other general government:			
Animal control program		57,146	
Other operating expenditures		164,674	
Total		<u>221,820</u>	
Downtown Development			
Salaries and employee benefits		83,288	
Other operating expenditures		33,600	
Capital outlay		39,117	
Total		<u>156,005</u>	
Planning			
Salaries and employee benefits		120,709	
Other operating expenditures		176,123	
Total		<u>296,832</u>	
 Total general government	 <u>2,017,947</u>	 <u>1,541,051</u>	 <u>476,896</u>
 Public Safety:			
Police:			
Salaries and employee benefits		1,552,171	
Vehicle maintenance		25,037	
Other operating expenditures		291,452	
Capital outlay		210,042	
Total		<u>2,078,702</u>	

(continued)

**Town of Elon, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For The Year Ended June 30, 2020**

	Budget	Actual	Variance Positive (Negative)
Expenditures:(continued)			
Public Safety:(continued)			
Fire:			
Salaries and employee benefits		1,390,764	
Vehicle maintenance		35,297	
Contracted services		5,895	
Other operating expenditures		125,860	
Capital outlay		739,774	
Total		2,297,590	
Total public safety	4,547,303	4,376,292	171,011
Public works:			
Public works department:			
Salaries and employee benefits		425,146	
Building maintenance		22,581	
Equipment maintenance		10,282	
Vehicle maintenance		17,313	
Street lights		43,801	
Garbage removal		267,435	
Trash removal		6,870	
Tipping fees		52,505	
Cemetery maintenance		23,431	
Solid waste program		35,749	
Yard waste disposal		16,493	
Other operating expenditures		75,702	
Capital outlay		301,137	
Total		1,298,445	

(continued)

**Town of Elon, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For The Year Ended June 30, 2020**

	Budget	Actual	Variance Positive (Negative)
Expenditures:(continued)			
Public works:(continued)			
State Street Aid Allocation:			
Equipment maintenance		1,059	
Street maintenance		12,960	
Other operating expenditures		15,632	
Capital outlay		412,991	
Total		442,642	
Total public works	1,998,774	1,741,087	257,687
Recreational:			
Recreation:			
Salaries and employee benefits		151,043	
Buildings maintenance		14,625	
Grounds maintenance		41,872	
Other programs		6,005	
Other operating expenditures		29,176	
Capital outlay		51,103	
Total recreational	338,367	293,824	44,543
Debt Service:			
Principle - capital leases		150,283	
Interest - capital leases		3,561	
Total debt service	153,786	153,844	(58)
Total expenditures	9,056,177	8,106,098	950,079
Revenues over (under) expenditures	(1,513,842)	(161,986)	1,351,856

Town of Elon, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For The Year Ended June 30, 2020

	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses):			
Proceeds from installment financing		768,000	
Sale of capital assets		93,763	
Total other financing sources (uses)	861,250	861,763	513
Revenues Over other Sources Over (Under) Expenditures and Other Uses	(652,592)	699,777	<u>\$ 1,352,369</u>
Fund balance appropriated	652,592		
Net change in fund balance	<u>\$ -</u>		
Fund balances, beginning		6,706,378	
Fund balances, ending		<u>\$ 7,406,155</u>	

Town of Elon, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2020

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales		\$ 1,347,418	
Sewer sales		2,186,321	
Water and sewer taps		24,049	
Gibsonville reimbursement		209,888	
Total	\$ 3,561,200	3,767,676	\$ 206,476
Other operating revenues	10,800	16,255	5,455
Total operating revenues	3,572,000	3,783,931	211,931
Nonoperating revenues			
Investment earnings		35,905	
Water and sewer assessments		3,026	
System fees		43,175	
Antenna location fee		19,771	
Total nonoperating revenues	76,071	101,877	25,806
Total revenues	3,648,071	3,885,808	237,737
Expenditures:			
Salaries and employee benefits		368,956	
Supplies		8,514	
Equipment maintenance		361	
System maintenance		19,625	
Vehicle maintenance		4,661	
Burlington sewer treatment		1,272,915	
Gibsonville sewer treatment		489,621	
Burlington water purchased		896,520	
Gibsonville water purchased		2,042	
Contracted services		26,307	
Other operating expenditures		71,892	
Total	3,398,638	3,161,414	237,224

(continued)

**Town of Elon, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2020**

	Budget	Actual	Variance Positive (Negative)
Debt Service:			
Interest		-	
Principal retirement		7,257	
Total debt service	7,258	7,257	1
Capital outlay:			
Building		29,370	
Equipment		68,130	
Total capital outlay	230,000	97,500	132,500
Total expenditures	3,635,896	3,266,171	369,725
Revenues over (under) expenditures	12,175	619,637	607,462
Other financing sources (uses):			
Transfer to other funds:			
Capital System Development Fees		(43,175)	
Total other financing sources (uses)	(12,175)	(43,175)	(31,000)
Revenues and other sources over (under) expenditures	-	576,462	\$ 576,462
Fund Equity Appropriated	-		
	\$ -		

(continued)

Town of Elon, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2020

	Budget	Actual	Variance Positive (Negative)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over (under) expenditures		\$ 576,462	
Reconciling items:			
Capital outlay		97,500	
Loss on disposal of assets		(5,274)	
Operating transfer (in) out		43,175	
Increase in accrued vacation pay		(7,714)	
Increase in net pension liability		(16,529)	
Decrease in deferred outflows of resources for pensions		(8,417)	
Decrease in deferred inflows of resources for pensions		1,914	
Depreciation		(250,980)	
Capital project revenue		710	
Principal Retirement		7,257	
Total reconciling items		<u>(138,358)</u>	
Net Income		<u>\$ 438,104</u>	

Town of Elon, North Carolina
Storm Water Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Year Ended June 30, 2020

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Storm water fees		\$ 129,756	
Sales tax refund		3,397	
Total	\$ 130,000	133,153	\$ 3,153
Total revenues	130,000	133,153	3,153
Expenditures:			
Engineering		22,488	
Capital improvements		18,975	
Other operating expenditures		10,995	
Total	130,000	52,458	77,542
Total expenditures	130,000	52,458	77,542
Revenues over (under) expenditures	-	80,695	80,695
Other financing sources (uses):			
	-	-	-
Total other financing sources (uses)	-	-	-
Revenues and other sources over (under) expenditures	-	80,695	\$ 80,695
Fund Equity Appropriated	-		
	\$ -		
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures		\$ 80,695	
Reconciling items:			
Capital outlay		18,975	
Net Income		\$ 99,670	

Town of Elon, North Carolina
Water and Sewer Capital Project - Capital Reserve System Fee
Schedule of Revenues and Expenditures-
Budget and Actual (Non-GAAP)
From Inception and For the Year Ended June 30, 2020

	Project Author - ization	Prior Year	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenue					
Investment earnings	\$ -	\$ -	\$ 710	\$ 710	\$ 710
Expenditures:					
Contingency	17,175	-	-	-	17,175
Total expenditures	17,175	-	-	-	17,175
Revenues under expenditures	(17,175)	-	710	710	17,885
Other financing sources (uses)					
Transfer from water and sewer fund	17,175	73,730	43,175	116,905	99,730
Total other financing sources (uses)	17,175	73,730	43,175	116,905	99,730
Revenues and other sources over (under) expenditures	\$ -	\$ 73,730	\$ 43,885	\$ 117,615	\$ 117,615

**Town of Elon, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2020**

Fiscal Year	Uncollected Balance June 30, 2019	Additions	Collections And Credits	Uncollected Balance June 30, 2020
2019-2020	\$ -	\$ 2,785,132	\$ 2,782,438	\$ 2,694
2018-2019	6,421	-	4,053	2,368
2017-2018	1,571	-	565	1,006
2016-2017	1,106	-	157	949
2015-2016	1,004	-	157	847
2014-2015	976	-	80	896
2013-2014	1,927	-	79	1,848
2012-2013	2,195	-	117	2,078
2011-2012	1,102	-	9	1,093
2010-2011	954	-	23	931
2009-2010	1,020	-	1,020	-
	<u>\$ 18,276</u>	<u>\$ 2,785,132</u>	<u>\$ 2,788,698</u>	14,710

Less: allowance for uncollectible accounts
General Fund

(10,148)

Ad valorem taxes receivable - net

\$ 4,562

Reconcilement with revenues:

Ad valorem taxes - General Fund

\$ 2,766,402

Reconciling items:

Penalties and interest collected

(3,453)

Discounts allowed

8,887

Tax releases and adjustments

16,862

Total collections and credits

\$ 2,788,698

Town of Elon, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
June 30, 2020

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 606,999,987	.45	\$ 2,731,500	\$ 2,450,740	\$ 280,760
Total	<u>606,999,987</u>		<u>2,731,500</u>	<u>2,450,740</u>	<u>280,760</u>
Discoveries:					
Current year taxes	<u>12,474,444</u>	.45	<u>56,135</u>	<u>56,135</u>	<u>-</u>
Abatements	<u>(556,218)</u>	.45	<u>(2,503)</u>	<u>(2,503)</u>	<u>-</u>
Total property valuation	<u>\$ 618,918,213</u>				
Net Levy			2,785,132	2,504,372	280,760
Unpaid (by taxpayers) taxes at June 30, 2020			<u>2,694</u>	<u>2,066</u>	<u>628</u>
Current year's taxes collected			<u>\$ 2,782,438</u>	<u>\$ 2,502,306</u>	<u>\$ 280,132</u>
Current levy collection percentage			<u>99.90%</u>	<u>99.92%</u>	<u>99.78%</u>



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

Independent Auditor's Report

To the Honorable Mayor and
Members of the Board of Aldermen
Town of Elon, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to 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, each major fund, and the aggregate remaining fund information of the Town of Elon, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprises the Town of Elon's basic financial statements, and have issued our report thereon dated December 21, 2020.

Internal Control Over Financial Reporting

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

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

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

MEMBER OF:

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS • AICPA PRIVATE COMPANIES PRACTICE SECTION • NORTH CAROLINA ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Compliance and Other Matters

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

Purpose of this Report

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

Cobb Engelberg & Company, PA

Certified Public Accountants

Graham, North Carolina

December 21, 2020

Unit of Government: Town of Elon
 GASB 34 CALCULATION OF MAJOR FUNDS
 June 30, 2020

Note: Revenue includes operating and nonoperating but not other financing sources. Amounts should be taken from the fund statements instead of the government-wide.

Type of Fund	Computes "X" if Meets			Computes "X" if Meets			Expenditures/ Expenses	Computes "X" if Meets		Computes "MAJOR" if Fund is Major if a "Category" Has an "X" in Both Columns. Then Fund is a Major Fund
	Assets	10% Rule	5% Rule	Liabilities	10% Rule	5% Rule		10% Rule	5% Rule	
General Fund	7,527,043	N/A	N/A	120,888	N/A	N/A	8,106,098	N/A	N/A	YES, ALWAYS MAJOR
Capital Projects Funds:										
NA										
Total Governmental Funds	<u>7,527,043</u>			<u>120,888</u>			<u>8,106,098</u>			
10 % of Total Governmental Funds	<u>752,704</u>			<u>12,089</u>			<u>810,610</u>			
Enterprise Funds:										
Water and Sewer Fund	8,818,420	X	X	658,138	X	X	3,443,140	X	X	MAJOR
Stormwater Fund	159,714			20,639			33,483			
Total Enterprise Funds	<u>8,978,134</u>			<u>678,777</u>			<u>3,476,623</u>			
10% of Total Enterprise Funds	<u>897,813</u>			<u>67,878</u>			<u>347,662</u>			
Total Governmental & Enterprise Funds	<u>16,505,177</u>			<u>799,665</u>			<u>11,582,721</u>			
5% of Total Governmental & Enterprise Funds	<u>825,259</u>			<u>39,983</u>			<u>579,136</u>			