

TOWN OF POLKTON, NORTH CAROLINA

FINANCIAL STATEMENTS

Year Ended June 30, 2020

JBW

J. B. WATSON & Co., P.L.L.C.

Certified Public Accountants

TOWN OF POLKTON, NORTH CAROLINA
LOCAL GOVERNMENT OFFICIALS
June 30, 2020

Town Council Members

Cynthia Williams, Mayor

Sissy Stegall, Mayor Pro Tem

Johnny Faulk

Cindy Heafner

Jimmy Hildreth

Russell Goodwin

Administrative and Financial Staff

Jerricka Napier, Town Clerk/Finance Officer

Richard Broadway, Public Works Director

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the Town Council
Town of Polkton, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Polkton, 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.

Auditors' 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.

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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of Town of Polkton, 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 Management's Discussion and Analysis, the Local Governmental Employees' Retirement System's Schedules of Proportionate Share of the Net Pension Liability (Asset) and Contributions, the Law Enforcement Officers' Special Separation Allowance's Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, and the Other Postemployment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of 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

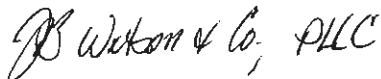
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Town of Polkton, North Carolina. The individual fund statements, budgetary schedules, other schedules, and schedule of expenditures of federal and State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

The individual fund statements, budgetary schedules, other schedules, and schedule of expenditures of federal and State awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures

in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit and the procedures performed as described above, the individual fund statements, budgetary schedules, other schedules, and schedule of expenditures of federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2020, on our consideration of Town of Polkton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of 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 Polkton's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "B. Wilson & Co., PLLC". The signature is written in a cursive, flowing style.

Wadesboro, North Carolina
November 2, 2020

Management's Discussion and Analysis

As management of Town of Polkton, we offer readers of Town of Polkton's financial statements this narrative overview and analysis of the financial activities of Town of Polkton 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

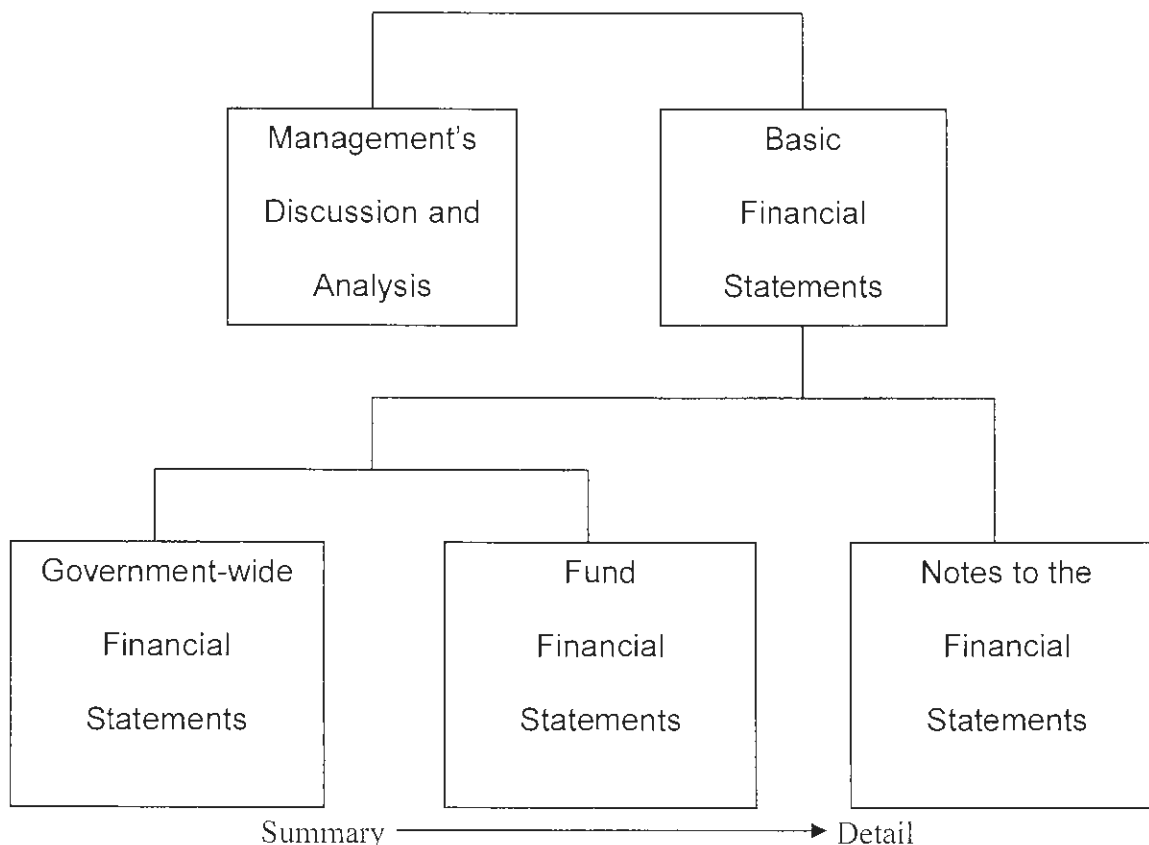
- The assets and deferred outflows of resources of Town of Polkton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$5,100,398 (*net position*).
- The government's total net position increased by \$5,434 primarily due to increases in property taxes, utility charges for services, and investment earnings, as well as decreases in some departmental expenses.
- As of the close of the current fiscal year, Town of Polkton's governmental funds reported combined ending fund balances of \$2,091,470 with a net decrease of \$60,807 in fund balance. Approximately 77 percent of this total amount, or \$1,604,289, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,604,289 or 167 percent of total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

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

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 3-1 through 8) 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 fund statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

The next section of the basic financial statements is the **notes**. The notes to the financial statements explain in detail some of the data contained in those statements. Following the notes is **required supplementary information**. This section contains funding information about the Town's pension plans and postemployment benefits. Also after the notes, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the North Carolina 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 it has 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 services offered by Town of Polkton.

The government-wide financial statements are 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. Town of Polkton, 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 Polkton 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* which 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 governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

Town of Polkton adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these

current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – Town of Polkton 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. Town of Polkton 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 begin on page 12 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Town of Polkton's progress in funding its obligation to provide pension benefits and postemployment benefits to its employees. Required supplementary information can be found beginning on page 40 of this report.

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

Government-Wide Financial Analysis

Town of Polkton's Net Position
Figure 2

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 2,179,542	\$ 2,266,716	\$ 1,271,973	\$ 1,157,838	\$ 3,451,515	\$ 3,424,554
Capital assets	362,499	272,057	2,090,235	2,151,897	2,452,734	2,423,954
Deferred outflows of resources	102,109	86,076	17,291	17,168	119,400	103,244
Total assets and deferred outflows of resources	<u>2,644,150</u>	<u>2,624,849</u>	<u>3,379,499</u>	<u>3,326,903</u>	<u>6,023,649</u>	<u>5,951,752</u>
Current and other liabilities	35,226	60,362	79,789	72,922	115,015	133,284
Long-term liabilities outstanding:						
Due within one year	4,445	2,396	-	-	4,445	2,396
Due in more than one year	665,309	567,450	87,235	89,651	752,544	657,101
Deferred inflows of resources	<u>46,081</u>	<u>56,045</u>	<u>5,166</u>	<u>7,962</u>	<u>51,247</u>	<u>64,007</u>
Total liabilities and deferred inflows of resources	<u>751,061</u>	<u>686,253</u>	<u>172,190</u>	<u>170,535</u>	<u>923,251</u>	<u>856,788</u>
Net position:						
Net investment in capital assets	340,335	267,263	2,090,235	2,151,897	2,430,570	2,419,160
Restricted	412,181	544,295	-	-	412,181	544,295
Unrestricted	<u>1,140,573</u>	<u>1,127,038</u>	<u>1,117,074</u>	<u>1,004,471</u>	<u>2,257,647</u>	<u>2,131,509</u>
Total net position	<u>\$ 1,893,089</u>	<u>\$ 1,938,596</u>	<u>\$ 3,207,309</u>	<u>\$ 3,156,368</u>	<u>\$ 5,100,398</u>	<u>\$ 5,094,964</u>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of Town of Polkton exceeded liabilities and deferred inflows by \$5,100,398 as of June 30, 2020. The Town's net position increased by \$5,434 for the fiscal year ended June 30, 2020. However, the largest portion (47.7%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). Town of Polkton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although Town of Polkton's net investment in 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 Town of Polkton's net position, \$412,181 (8.1%), represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,257,647 (44.2%) is unrestricted.

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

- Property tax collections were consistent.
- Investment earnings were increased due to investing idle funds with NCCMT.

Town of Polkton's Changes in Net Position
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program Revenues:						
Charges for services	\$ 47,467	\$ 48,956	\$ 275,588	\$ 292,770	\$ 323,055	\$ 341,726
Operating grants and contributions	23,229	80,775	-	-	23,229	80,775
Capital grants and contributions	60,774	10,300	-	-	60,774	10,300
General Revenues:						
Property taxes	124,053	125,186	-	-	124,053	125,186
Other taxes and licenses	695,850	735,481	-	-	695,850	735,481
Grants and contributions not restricted	-	-	-	-	-	-
Investment earnings, unrestricted	14,369	8,181	8,697	4,210	23,066	12,391
Miscellaneous, unrestricted	12,798	180	-	-	12,798	180
Total Revenues	<u>978,540</u>	<u>1,009,039</u>	<u>284,285</u>	<u>296,980</u>	<u>1,262,825</u>	<u>1,306,039</u>
Expenses:						
Program Expenses:						
General government	193,890	171,083	-	-	193,890	171,083
Public safety	300,665	290,721	-	-	300,665	290,721
Transportation	369,401	226,097	-	-	369,401	226,097
Environmental protection	48,924	44,679	-	-	48,924	44,679
Culture and recreation	21,185	23,071	-	-	21,185	23,071
Interest on long-term debt	1,217	-	-	-	1,217	-
Water and sewer	-	-	322,109	422,812	322,109	422,812
Total Expenses	<u>935,282</u>	<u>755,651</u>	<u>322,109</u>	<u>422,812</u>	<u>1,257,391</u>	<u>1,178,463</u>
Increase (decrease) in net position before transfers	43,258	253,408	(37,824)	(125,832)	5,434	127,576
Transfers	<u>(88,765)</u>	<u>(172,250)</u>	<u>88,765</u>	<u>172,250</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	(45,507)	81,158	50,941	46,418	5,434	127,576
Net Position, July 1	<u>1,938,596</u>	<u>1,857,438</u>	<u>3,156,368</u>	<u>3,109,950</u>	<u>5,094,964</u>	<u>4,967,388</u>
Net Position, June 30	<u>\$ 1,893,089</u>	<u>\$ 1,938,596</u>	<u>\$ 3,207,309</u>	<u>\$ 3,156,368</u>	<u>\$ 5,100,398</u>	<u>\$ 5,094,964</u>

Governmental activities. Governmental activities decreased the Town's net position by \$45,507, thereby not contributing to the total growth in the net position of Town of Polkton for the current year. A key element of this is an increase in spending for transportation in an effort to utilize available Powell Bill funding and transferring \$88,765 to the Water and Sewer Fund for its operations.

Business-type activities. Business-type activities increased Town of Polkton's net position by \$50,941 largely due to the transfer from the General Fund.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of Town of Polkton's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing Town of Polkton's financing requirements.

The General Fund is the chief operating fund of Town of Polkton. At the end of the current fiscal year, Town of Polkton's fund balance available in the General Fund was \$1,963,666, while total fund balance reached \$2,091,470. The Town currently has an available fund balance of 204.6% of General Fund expenditures, while total fund balance represents 217.9% of the same amount.

At June 30, 2020, the governmental funds of Town of Polkton reported a combined fund balance of \$2,091,470 with a net decrease in fund balance of \$60,807.

General Fund Budgetary Highlights. During the fiscal year, the Town 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.

Revenues were slightly more than the budgeted amounts primarily due to conservative budgeting of local option sales taxes. Expenditures were held in check to comply with budgetary requirements.

Proprietary Funds. Town of Polkton'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 \$1,117,074. The total change in net position for the Water and Sewer Fund was an increase of \$50,941.

Capital Asset and Debt Administration

Capital assets. Town of Polkton's investment in capital assets for its governmental and business-type activities as of June 30, 2020, totals \$2,452,734 (net of accumulated depreciation). These assets include buildings, streets, land, machinery and equipment, park facilities, vehicles, and the water and sewer system.

Major capital asset transactions during the year include the following:

- Purchase of a 2019 Dodge Durango for the police department
- Installment purchase of 3 APX 6000 portable radios for the police department
- Purchase of 3 Watchguard body cameras for the police department
- Police in-car camera and radar equipment acquired through the Governors Highway Safety Program
- Purchase of a John Deere 5075E tractor and loader for the streets department
- Purchase of a water test meter
- Installation of water and sewer meters

Town of Polkton's Capital Assets
(net of depreciation)
Figure 4

	Governmental Activities		Business-type Activities		Total	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Land	\$ 7,830	\$ 7,830	\$ 81,232	\$ 81,232	\$ 89,062	\$ 89,062
Construction in progress	-	-	40,000	40,000	40,000	40,000
Land improvements	10,040	14,742	-	-	10,040	14,742
Infrastructure	107,213	113,962	-	-	107,213	113,962
Buildings	66,239	72,192	50,292	54,328	116,531	126,520
Vehicles and maintenance equipment	106,195	23,717	8,591	6,492	114,786	30,209
Equipment and furnishings	64,982	39,614	-	-	64,982	39,614
Water and sewer system	-	-	1,910,120	1,969,845	1,910,120	1,969,845
Total	<u>\$ 362,499</u>	<u>\$ 272,057</u>	<u>\$ 2,090,235</u>	<u>\$ 2,151,897</u>	<u>\$ 2,452,734</u>	<u>\$ 2,423,954</u>

Additional information on the Town's capital assets can be found in Note 3 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2020, Town of Polkton had no bonded debt.

Town of Polkton's Outstanding Debt
Figure 5

	Governmental Activities		Business-type Activities		Total	
	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>	<u>2020</u>	<u>2019</u>
Direct borrowing installment purchases	<u>\$ 22,164</u>	<u>\$ 4,794</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,164</u>	<u>\$ 4,794</u>

Town of Polkton's Outstanding Debt

Town of Polkton's total debt increased by \$17,370 during the current fiscal year. The increase was due to the issuance of a direct borrowing installment purchase contract of \$18,568 for the purchase of law enforcement equipment.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Polkton is \$3,699,255.

Additional information regarding Town of Polkton's long-term debt can be found in Note 3 of this report.

Economic Factors and Next Year's Budgets and Rates

There are currently no known plans for significant growth within the Town.

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities: Changes were made to the budget for purchasing new vehicles for the police department, streets department, and water/sewer department. The FY 2020-2021 budget was decreased somewhat to account for expected decreases in local option sales tax due to the COVID-19 pandemic. Ad valorem tax revenue was also decreased due to delays in collection of motor vehicle taxes also due to the current pandemic.

Business-type Activities: The Town plans to maintain water and sewer services at the current level. Meter purchases will only be to replace existing radio read meters as needed. The billing rate structure for water was changed for FY 2020-2021. The rate per 1000 gallons used for water and sewer was increased for FY 2020-2021. The tax rate increased for FY 2020-2021 by three percent making it 30 cents per \$100 valuation. Water and sewer revenues were decreased in the FY 2020-2021 budget to account for anticipated declines in collections due to North Carolina Executive Orders No. 124 and 142 delaying the collection of utility bills and instituting payment arrangements extending into 2020-2021.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Finance Officer, Town of Polkton, PO Box 99, Polkton, NC 28135.

BASIC FINANCIAL STATEMENTS

TOWN OF POLKTON, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2020

Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	\$ 1,713,298	\$ 1,180,018	\$ 2,893,316
Receivables:			
Taxes receivable	44,763	-	44,763
Accounts receivable (net)	6,016	24,876	30,892
Accrued interest receivable	9,300	-	9,300
Due from other governments	121,787	1,474	123,261
Inventories	-	28,444	28,444
Restricted assets:			
Cash and cash equivalents	284,378	37,161	321,539
TOTAL CURRENT ASSETS	<u>2,179,542</u>	<u>1,271,973</u>	<u>3,451,515</u>
CAPITAL ASSETS			
Land and other nondepreciable assets	7,830	121,232	129,062
Other capital assets (net)	354,669	1,969,003	2,323,672
TOTAL CAPITAL ASSETS	<u>362,499</u>	<u>2,090,235</u>	<u>2,452,734</u>
TOTAL ASSETS	<u>2,542,041</u>	<u>3,362,208</u>	<u>5,904,249</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>102,109</u>	<u>17,291</u>	<u>119,400</u>
LIABILITIES			
Accounts payable and accrued liabilities	33,904	1,005	34,909
Accrued interest payable	1,217	-	1,217
Due to other governments	105	41,623	41,728
Payable from restricted assets	-	37,161	37,161
Long-term liabilities:			
Due within one year	4,445	-	4,445
Due in more than one year	665,309	87,235	752,544
TOTAL LIABILITIES	<u>704,980</u>	<u>167,024</u>	<u>872,004</u>
DEFERRED INFLOWS OF RESOURCES	<u>46,081</u>	<u>5,166</u>	<u>51,247</u>
NET POSITION			
Net investment in capital assets	340,335	2,090,235	2,430,570
Restricted for:			
Stabilization by State statute	127,803	-	127,803
Streets - Powell Bill	284,378	-	284,378
Unrestricted	1,140,573	1,117,074	2,257,647
TOTAL NET POSITION	<u>\$ 1,893,089</u>	<u>\$ 3,207,309</u>	<u>\$ 5,100,398</u>

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

TOWN OF POLKTON, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Exhibit 2

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Functions/Programs:							
Governmental activities							
General government	\$ 193,890	\$ -	\$ -	\$ -	\$ (193,890)	\$ -	\$ (193,890)
Public safety	300,665	2,095	-	10,000	(288,570)	-	(288,570)
Transportation	369,401	-	23,229	50,774	(295,398)	-	(295,398)
Environmental protection	48,924	45,372	-	-	(3,552)	-	(3,552)
Culture and recreation	21,185	-	-	-	(21,185)	-	(21,185)
Interest on long-term debt	1,217	-	-	-	(1,217)	-	(1,217)
Total governmental activities	935,282	47,467	23,229	60,774	(803,812)	-	(803,812)
Business-type activities:							
Water and sewer	322,109	275,588	-	-	-	(46,521)	(46,521)
	<u>\$ 1,257,391</u>	<u>\$ 323,055</u>	<u>\$ 23,229</u>	<u>\$ 60,774</u>	<u>(803,812)</u>	<u>(46,521)</u>	<u>(850,333)</u>
General revenues:							
Taxes:							
Property taxes, levied for general purposes					124,053	-	124,053
Other taxes and licenses					695,850	-	695,850
Grants and contributions not restricted to specific programs					-	-	-
Investment earnings, unrestricted					14,369	8,697	23,066
Miscellaneous, unrestricted					12,798	-	12,798
Total general revenues not including transfers					847,070	8,697	855,767
Transfers					(88,765)	88,765	-
Total general revenues and transfers					758,305	97,462	855,767
Change in net position					(45,507)	50,941	5,434
Net position, beginning					1,938,596	3,156,368	5,094,964
Net position, ending					<u>\$ 1,893,089</u>	<u>\$ 3,207,309</u>	<u>\$ 5,100,398</u>

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

TOWN OF POLKTON, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2020

Exhibit 3-1

	General Fund
ASSETS	
Cash and cash equivalents	\$ 1,713,298
Restricted cash and cash equivalents	284,378
Taxes receivable	44,763
Accounts receivable	6,016
Due from other governments	<u>121,787</u>
TOTAL ASSETS	<u>\$ 2,170,242</u>
LIABILITIES	
Accounts payable and accrued liabilities	\$ 33,904
Due to other governments	<u>105</u>
TOTAL LIABILITIES	<u>34,009</u>
DEFERRED INFLOWS OF RESOURCES	
Property taxes receivable	44,763
Prepaid taxes	<u>-</u>
TOTAL DEFERRED INFLOWS OF RESOURCES	<u>44,763</u>
FUND BALANCES	
Restricted:	
Stabilization by State statute	127,803
Streets - Powell Bill	284,378
Assigned:	
Subsequent year's expenditures	75,000
Unassigned	<u>1,604,289</u>
TOTAL FUND BALANCES	<u>2,091,470</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 2,170,242</u>

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

TOWN OF POLKTON, NORTH CAROLINA
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE
SHEET TO THE STATEMENT OF NET POSITION
June 30, 2020

Exhibit 3-2

Fund balances - Total governmental funds (Exhibit 3-1) **\$ 2,091,470**

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. 362,499

Deferred outflows of resources related to pensions and OPEB are not
reported in the funds. 102,109

Other long-term assets (accrued interest receivable on taxes) are not
available to pay for current-period expenditures and, therefore, are
inflows of resources in the funds. 9,300

Liabilities for earned revenues considered deferred inflows of resources
in fund statements. 44,763

Deferred inflows of resources related to pensions and OPEB are not
reported in the funds. (46,081)

Long-term liabilities used in governmental activities are not financial
uses and, therefore, are not reported in the funds:

Installment purchase payable	(22,164)
Accrued interest payable	(1,217)
Compensated absences payable	(15,522)
Net pension liability (LGERS)	(105,845)
Total pension liability (LEO)	(18,581)
Total OPEB liability	<u>(507,642)</u>

Net position of governmental activities (Exhibit 1) **\$ 1,893,089**

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

TOWN OF POLKTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2020

Exhibit 4-1

	General Fund
REVENUES	
Ad valorem taxes	\$ 124,067
Unrestricted intergovernmental	692,944
Restricted intergovernmental	76,909
Permits and fees	1,327
Sales and services	45,372
Investment earnings	14,369
Miscellaneous	<u>7,136</u>
TOTAL REVENUES	<u>962,124</u>
EXPENDITURES	
Current:	
General government	185,688
Public safety	329,217
Transportation	379,175
Environmental protection	48,924
Culture and recreation	15,732
Debt service:	
Principal retirement	<u>1,198</u>
TOTAL EXPENDITURES	<u>959,934</u>
REVENUES OVER EXPENDITURES	<u>2,190</u>
OTHER FINANCING SOURCES (USES)	
Transfers to other funds	(88,765)
Sale of capital assets	7,200
Loan proceeds	<u>18,568</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(62,997)</u>
NET CHANGE IN FUND BALANCE	(60,807)
FUND BALANCE, beginning	<u>2,152,277</u>
FUND BALANCE, ending	<u><u>\$ 2,091,470</u></u>

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

TOWN OF POLKTON, NORTH CAROLINA
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2020

Exhibit 4-2

Net change in fund balances - total governmental funds (Exhibit 4-1) \$ (60,807)

Amounts reported for governmental activities in the statement of activities (Exhibit 2) are different because:

Governmental funds report capital outlays as expenditures. In the statement of activities, however, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Capital outlay expenditures	126,230
Net book value of disposed capital assets not recorded in the fund statements	(6,770)
Trade-in allowance on disposed capital asset	6,000
Depreciation	(45,018)

Contributions to the pension plan in the current fiscal year are not included on the statement of activities.	24,735
---	--------

Benefit payments paid and administrative expenses for the LEOSSA are not included on the statement of activities.	2,007
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OPEB benefit payments and administrative expenses incurred in the current fiscal year are not included on the statement of activities.	12,386
--	--------

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds:

Change in accrued interest receivable on taxes	(2,054)
Change in unavailable revenue for tax revenues	2,040
Amount of donated assets	10,000

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 position. This amount is the net effect of these differences in the treatment of long-term debt and related items:

New long-term debt issued	(18,568)
Principal payments on long-term debt	1,198

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:

Change in accrued interest payable	(1,217)
Change in compensated absences payable	4,556
Pension expense	(54,805)
OPEB plan expense	(45,420)

Total change in net position of governmental activities (Exhibit 2) \$ (45,507)

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

TOWN OF POLKTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2020

Exhibit 5

	Original Budget	Final Budget	Actual	Variance with Final Positive Negative
REVENUES				
Ad valorem taxes	\$ 115,000	\$ 115,000	\$ 124,067	\$ 9,067
Unrestricted intergovernmental	684,400	684,400	692,944	8,544
Restricted intergovernmental	82,300	83,171	76,909	(6,262)
Permits and fees	900	900	1,327	427
Sales and services	40,500	40,500	45,372	4,872
Investment earnings	5,514	5,514	14,369	8,855
Miscellaneous	970	4,196	7,136	2,940
TOTAL REVENUES	929,584	933,681	962,124	28,443
EXPENDITURES				
Current:				
General government	178,225	191,425	185,688	5,737
Public safety	328,575	353,716	329,217	24,499
Transportation	295,980	389,955	379,175	10,780
Environmental protection	48,370	48,370	48,924	(554)
Culture and recreation	20,500	21,025	15,732	5,293
Debt service:				
Principal retirement	-	1,198	1,198	-
TOTAL EXPENDITURES	871,650	1,005,689	959,934	45,755
REVENUES OVER (UNDER) EXPENDITURES	57,934	(72,008)	2,190	74,198
OTHER FINANCING SOURCES (USES)				
Transfers to other funds	(88,765)	(88,765)	(88,765)	-
Sale of capital assets	-	3,674	7,200	3,526
Loan proceeds	-	18,568	18,568	-
TOTAL OTHER FINANCING SOURCES (USES)	(88,765)	(66,523)	(62,997)	3,526
REVENUES AND OTHER SOURCES UNDER EXPENDITURES AND OTHER USES	(30,831)	(138,531)	(60,807)	77,724
APPROPRIATED FUND BALANCE	30,831	138,531	-	(138,531)
NET CHANGE IN FUND BALANCE	\$ -	\$ -	(60,807)	\$ (60,807)
FUND BALANCE, beginning			2,152,277	
FUND BALANCE, ending			\$ 2,091,470	

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

TOWN OF POLKTON, NORTH CAROLINA
STATEMENT OF FUND NET POSITION - PROPRIETARY FUNDS
June 30, 2020

Exhibit 6

	<u>Water and Sewer Fund</u>
ASSETS	
CURRENT ASSETS	
Cash and cash equivalents	\$ 1,180,018
Accounts receivable (net)	24,876
Due from other governments	1,474
Inventories	28,444
Restricted cash and cash equivalents	<u>37,161</u>
TOTAL CURRENT ASSETS	<u>1,271,973</u>
NONCURRENT ASSETS	
Capital assets:	
Land and other nondepreciable assets	121,232
Other capital assets (net)	<u>1,969,003</u>
TOTAL NONCURRENT ASSETS	<u>2,090,235</u>
TOTAL ASSETS	<u>3,362,208</u>
DEFERRED OUTFLOWS OF RESOURCES	<u>17,291</u>
LIABILITIES	
CURRENT LIABILITIES	
Accounts payable and accrued liabilities	1,005
Due to other governments	41,623
Liabilities payable from restricted assets:	
Customer deposits	<u>37,161</u>
TOTAL CURRENT LIABILITIES	<u>79,789</u>
NONCURRENT LIABILITIES	
Compensated absences payable	5,318
Net pension liability	25,512
Total OPEB liability	<u>56,405</u>
TOTAL NONCURRENT LIABILITIES	<u>87,235</u>
TOTAL LIABILITIES	<u>167,024</u>
DEFERRED INFLOWS OF RESOURCES	<u>5,166</u>
NET POSITION	
Net investment in capital assets	2,090,235
Unrestricted	<u>1,117,074</u>
TOTAL NET POSITION	<u><u>\$ 3,207,309</u></u>

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

TOWN OF POLKTON, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUNDS
For the Year Ended June 30, 2020

Exhibit 7

	<u>Water and Sewer Fund</u>
OPERATING REVENUES	
Charges for services	\$ 268,733
Other operating revenues	<u>6,855</u>
TOTAL OPERATING REVENUES	<u>275,588</u>
OPERATING EXPENSES	
Salaries and employee benefits	81,208
Office expenses	2,506
Utilities	885
Supplies	8,212
Tests, permits, and fees	4,535
Water purchases	42,203
Sewer charges	80,895
Repairs and maintenance	27,043
Insurance	2,482
Depreciation	67,532
Mobile phones	644
Public service vehicle	2,982
Miscellaneous	<u>982</u>
TOTAL OPERATING EXPENSES	<u>322,109</u>
OPERATING LOSS	(46,521)
NONOPERATING REVENUES	
Investment earnings	<u>8,697</u>
LOSS BEFORE TRANSFERS	(37,824)
TRANSFERS	<u>88,765</u>
CHANGE IN NET POSITION	50,941
NET POSITION, beginning	<u>3,156,368</u>
NET POSITION, ending	<u><u>\$ 3,207,309</u></u>

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

TOWN OF POLKTON, NORTH CAROLINA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2020

Exhibit 8
Page 1 of 2

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from customers	\$ 276,548
Cash paid for goods and services	(170,518)
Cash paid to or on behalf of employees for services	(84,522)
Customer deposits received	10,950
Customer deposits returned/applied	(9,060)
Other operating cash receipts	<u>6,855</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>30,253</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Transfers from other funds	<u>88,765</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Acquisition of capital assets	<u>(5,870)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Investment earnings	<u>8,697</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	121,845
CASH AND CASH EQUIVALENTS, beginning	<u>1,095,334</u>
CASH AND CASH EQUIVALENTS, ending	<u><u>\$ 1,217,179</u></u>
CASH AND CASH EQUIVALENTS	
Unrestricted	\$ 1,180,018
Restricted	<u>37,161</u>
	<u><u>\$ 1,217,179</u></u>

TOWN OF POLKTON, NORTH CAROLINA
STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS
For the Year Ended June 30, 2020

Exhibit 8
Page 2 of 2

Water and
Sewer Fund

**RECONCILIATION OF OPERATING LOSS TO NET CASH
USED BY OPERATING ACTIVITIES:**

Operating loss	\$ (46,521)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	67,532
(Increase) decrease in:	
Accounts receivable (net)	7,815
Due from other governments	222
Inventories	(327)
Deferred outflows of resources - pensions	2,243
Deferred outflows of resources - OPEB	(2,366)
Increase (decrease) in:	
Accounts payable and accrued liabilities	(1,187)
Due to other governments	6,164
Customer deposits	1,890
Compensated absences payable	-
Net pension liability	4,666
Total OPEB liability	(7,082)
Deferred inflows of resources - pensions	(260)
Deferred inflows of resources - OPEB	<u>(2,536)</u>

**NET CASH PROVIDED BY
OPERATING ACTIVITIES**

\$ 30,253

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

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. REPORTING ENTITY

Town of Polkton is a municipal corporation which is governed by an elected mayor and a five-member council.

B. BASIS OF PRESENTATION

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government and its component units, if any. 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, when applicable.

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

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

The Town reports the following major governmental fund:

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 general government, public safety, and street maintenance.

The Town reports the following major enterprise fund:

Water and Sewer Fund. This fund is used to account for the Town's water and sewer operations.

C. MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

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

Government-wide 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 nonoperating 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 enterprise funds 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 nonoperating revenues and expenses.

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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

Sales taxes and certain intergovernmental revenues, such as the beer and wine 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 Town of Polkton because the tax is levied by Anson County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been satisfied. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there 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 as needed. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. All amendments must be approved by the governing board. 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.

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

E. ASSETS, LIABILITIES, DEFERRED OUTFLOWS/INFLOWS OF RESOURCES, AND FUND EQUITY

DEPOSITS AND INVESTMENTS

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT). The NCCMT - Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. Because the NCCMT Government Portfolio has a weighted average maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

CASH AND CASH EQUIVALENTS

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents.

RESTRICTED ASSETS

Customer deposits held by the Town 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 purposes outlined in G.S. 136-41.1 through 136-41.4.

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.

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 receivables written off in prior years, as well as the receivables at year end deemed to be uncollectible.

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

INVENTORIES

Inventories are maintained for the Water and Sewer Fund supplies. The inventories are valued at cost. The costs of these inventories are expensed when consumed rather than when purchased.

CAPITAL ASSETS

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 16, 2015, are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015, are recorded at acquisition value. The minimum capitalization limit is \$1,000. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and have not been capitalized. 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 of the Town are depreciated on a straight-line basis over the following estimated useful lives:

Land improvements	15 years
Infrastructure	30 years
Buildings	10 – 39 years
Vehicles and maintenance equipment	5 – 40 years
Equipment and furnishings	5 – 15 years
Water and sewer system	25 – 50 years

DEFERRED OUTFLOWS/INFLOWS OF RESOURCES

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has several items that meet this criterion – contributions made to the OPEB and pension plans in the current fiscal year and OPEB and pension related deferrals. In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category – prepaid taxes (when applicable), property taxes receivable, and OPEB and pension related deferrals.

LONG-TERM OBLIGATIONS

In the government-wide financial statements and in the 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. In the fund financial statements for governmental fund types, the face amount of debt issued is reported as an other financing source.

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
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COMPENSATED ABSENCES

The vacation policy of the Town provides for the accumulation of up to thirty (30) days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary fund financial statements, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned.

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

NET POSITION/FUND BALANCES

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

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. The Town does not have any nonspendable fund balance.

Restricted Fund Balance – This classification includes amounts that are restricted to specific purposes externally imposed 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 legislature in the 1930's designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS) is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget year.* 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. RSS is included as a component of restricted fund balance on the Balance Sheet and restricted net position on the Statement of Net Position.

TOWN OF POLKTON, NORTH CAROLINA
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June 30, 2020

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 board (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. The Town does not have any committed fund balance this year.

Assigned Fund Balance – portion of fund balance that the Town intends to use for specific purposes.

Subsequent year’s expenditures – portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed. The governing body approves the appropriation.

Unassigned Fund Balance – portion of fund balance that has not been restricted, committed, or assigned to specific purposes or other 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 Town has not adopted a minimum fund balance policy, but follows the State Treasurer’s guidance.

DEFINED BENEFIT PENSION AND OPEB PLANS

The Town participates in two cost-sharing, multiple-employer, defined benefit pension plans that are administered by the State – the Local Governmental Employees’ Retirement System (LGERS) and the Law Enforcement Officers’ Special Separation Allowance (LEOSSA) (collectively, the “state-administered defined benefit pension plans”) – and one other postemployment benefit plan (OPEB) – the Health Care Plan (the HC Plan). For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net positions of the state-administered defined benefit pension plans and additions to/deductions from the state-administered defined benefit pension plans’ fiduciary net positions have been determined on the same basis as they are reported by the state-administered defined benefit pension plans. For this purpose, plan member contributions are recognized in the period in which the contributions are due. Town of Polkton’s employer contributions are recognized when due and Town of Polkton has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the state-administered defined benefit pension plans. For purposes of measuring the total OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the HC Plan and additions to/deductions from the HC Plan’s fiduciary net position have been determined on the same basis as they are reported by the HC Plan. For this purpose, the HC Plan recognizes benefit payments when due and payable in accordance with the benefit terms. Investments for all plans are reported at fair value.

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2020, the expenditures made in the Town's General Fund exceeded the authorized appropriations made by the governing board for fire protection and sanitation. The over-budget amounts resulted from year-end accruals. Management and the Board will more closely review the budget reports to ensure compliance in future years.

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A. ASSETS

DEPOSITS

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the 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 credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all Pooling Method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2020, the Town's deposits had a carrying amount of \$2,598,629 and a bank balance of \$2,613,100. Of the bank balance, \$504,928 was covered by federal depository insurance, and the remainder was covered by collateral held under the Pooling Method. At June 30, 2020, the Town's bank balances exceeded federally insured limits by \$2,108,172. All deposits of the Town are insured or collateralized under the Pooling Method. At June 30, 2020, the Town's petty cash fund totaled \$175.

INVESTMENTS

At June 30, 2020, Town of Polkton had \$616,051 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no formal policy regarding credit risk, but has internal management procedures that limit the Town's investments to the provisions of G.S. 159-30.

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
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At June 30, 2020, the Town's investment balances were as follows:

	<u>Reported Value</u>	<u>Fair Value</u>
North Carolina Capital Management Trust Government Portfolio	<u>\$ 616,051</u>	<u>\$ 616,051</u>

RECEIVABLES - ALLOWANCES FOR DOUBTFUL ACCOUNTS

The receivables show in Exhibit 1 are net of the following allowances for doubtful accounts:

General Fund - Taxes receivable	\$ -
Water and Sewer Fund	<u>12,200</u>
	<u>\$ 12,200</u>

CAPITAL ASSETS

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<i>Governmental activities:</i>				
Capital assets not being depreciated:				
Land	<u>\$ 7,830</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,830</u>
Capital assets being depreciated:				
Land improvements	74,870	-	(200)	74,670
Infrastructure	202,485	-	-	202,485
Buildings	131,038	-	-	131,038
Vehicles and maintenance equipment	295,554	100,628	(44,214)	351,968
Equipment and furnishings	<u>130,812</u>	<u>41,602</u>	<u>(11,420)</u>	<u>160,994</u>
	<u>834,759</u>	<u>142,230</u>	<u>(55,834)</u>	<u>921,155</u>
Less accumulated depreciation for:				
Land improvements	60,128	4,702	(200)	64,630
Infrastructure	88,523	6,749	-	95,272
Buildings	58,846	5,953	-	64,799
Vehicles and maintenance equipment	271,837	16,658	(42,722)	245,773
Equipment and furnishings	<u>91,198</u>	<u>10,956</u>	<u>(6,142)</u>	<u>96,012</u>
	<u>570,532</u>	<u>45,018</u>	<u>(49,064)</u>	<u>566,486</u>
	<u>264,227</u>			<u>354,669</u>
Governmental activities capital assets, net	<u>\$ 272,057</u>			<u>\$ 362,499</u>

TOWN OF POLKTON, NORTH CAROLINA

NOTES TO FINANCIAL STATEMENTS

June 30, 2020

Depreciation expense was charged to governmental departments as follows:

General government	\$ 7,437
Public safety	19,460
Transportation	12,668
Culture and recreation	<u>5,453</u>
	<u>\$ 45,018</u>

	Beginning Balances	Increases	Decreases	Ending Balances
<i>Business-type activities:</i>				
Capital assets not being depreciated:				
Land	\$ 81,232	\$ -	\$ -	\$ 81,232
Construction in progress	<u>40,000</u>	<u>-</u>	<u>-</u>	<u>40,000</u>
	<u>121,232</u>	<u>-</u>	<u>-</u>	<u>121,232</u>
Capital assets being depreciated:				
Buildings	121,104	-	-	121,104
Vehicles and maintenance equipment	48,948	3,220	-	52,168
Water and sewer system	<u>3,121,068</u>	<u>2,650</u>	<u>-</u>	<u>3,123,718</u>
	<u>3,291,120</u>	<u>5,870</u>	<u>-</u>	<u>3,296,990</u>
Less accumulated depreciation for:				
Buildings	66,776	4,036	-	70,812
Vehicles and maintenance equipment	42,456	1,121	-	43,577
Water and sewer system	<u>1,151,223</u>	<u>62,375</u>	<u>-</u>	<u>1,213,598</u>
	<u>1,260,455</u>	<u>67,532</u>	<u>-</u>	<u>1,327,987</u>
	<u>2,030,665</u>			<u>1,969,003</u>
Business-type activities capital assets, net	<u>\$ 2,151,897</u>			<u>\$ 2,090,235</u>

Depreciation expense for the year ended June 30, 2020, was \$67,532.

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

B. LIABILITIES

PENSION PLAN AND POSTEMPLOYMENT OBLIGATIONS

Local Governmental Employees' Retirement System

Plan Description: Town of Polkton 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 local governmental entities. Article 3 of G. S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental 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, 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. 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 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.

TOWN OF POLKTON, NORTH CAROLINA
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Contributions: Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Polkton employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. Town of Polkton's contractually required contribution rate for the year ended June 30, 2020, was 9.70% of compensation for law enforcement officers and 9.11% for general employees, 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 Town of Polkton were \$29,925 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 \$131,357 for its proportionate share of the net pension liability. 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 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, 2020, the Town's proportion was 0.00481% (measured as of June 30, 2019), which was an increase of 0.0003% from its proportion as of June 30, 2019 (measured as of June 30, 2018).

For the year ended June 30, 2020, the Town recognized pension expense of \$61,820. 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	\$ 22,493	\$ -
Changes of assumptions	21,409	-
Net difference between projected and actual earnings on pension plan investments	3,204	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	4,313	1,462
Town's contributions subsequent to the measurement date	29,925	-
Total	<u>\$ 81,344</u>	<u>\$ 1,462</u>

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

\$29,925 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30,	
2021	\$ 24,238
2022	8,404
2023	13,025
2024	4,290
2025	-
Thereafter	-
	<u>\$ 49,957</u>

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 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

The plan actuary currently uses mortality rates based on the *RP-2014 Total Data Set for Healthy Annuitants Mortality Table* 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 as of 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:

TOWN OF POLKTON, NORTH CAROLINA
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June 30, 2020

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	6.0%	4.0%
Total	<u>100.0%</u>	

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

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

Sensitivity of the Town's Proportionate Share of the Net Pension Liability (Asset) to Changes in the Discount Rate: The following presents the Town's proportionate share of the net pension liability (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:

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 300,438	\$ 131,357	\$ (9,183)

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.

TOWN OF POLKTON, NORTH CAROLINA
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Law Enforcement Officers' Special Separation Allowance

Plan Description: Town of Polkton administers a public employee retirement system (the Separation Allowance), a single-employer, defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .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 three active plan members.

A separate report was not issued for the plan.

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 are recognized when due and payable in accordance with the terms of the plan.

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

Actuarial Assumptions: The entry age normal 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
Discount rate	3.26 percent

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 with adjustments for mortality improvements based on Scale AA.

TOWN OF POLKTON, NORTH CAROLINA
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Contributions: The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$-0- 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 \$18,581. 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 \$2,817.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 600	\$ 1,879
Changes of assumptions	1,081	623
Town benefit payments and plan administrative expenses incurred subsequent to the measurement date	<u>326</u>	<u>-</u>
Total	<u>\$ 2,007</u>	<u>\$ 2,502</u>

\$-0- paid as benefits came due and \$326 of administrative expenses incurred subsequent to the measurement date are reported as deferred outflows of resources and will be recognized as a decrease of the total pension liability in the year ending June 30, 2021. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ending June 30,</u>	
2021	\$ (256)
2022	(256)
2023	(256)
2024	(251)
2025	29
Thereafter	<u>169</u>
	<u>\$ (821)</u>

TOWN OF POLKTON, NORTH CAROLINA
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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 one percentage point lower (2.26 percent) or one percentage point higher (4.26 percent) than the current rate:

	1% Decrease <u>(2.26%)</u>	Discount Rate <u>(3.26%)</u>	1% Increase <u>(4.26%)</u>
Total pension liability	\$ 20,139	\$ 18,581	\$ 17,108

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

Balance at December 31, 2018	\$ 14,418
Service cost	2,552
Interest on the total pension liability	525
Change of benefit terms	-
Differences between expected and actuarial experience	517
Changes of assumptions or other inputs	569
Benefit payments	-
Other changes	<u>-</u>
Balance at December 31, 2019	<u>\$ 18,581</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 five year period ended December 31, 2014.

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	\$ 61,820	\$ 2,817	\$ 64,637
Pension liability	131,357	18,581	149,938
Proportionate share of the net pension liability (asset)	0.00481%	n/a	
Deferred outflows of resources:			
Differences between expected and actual experience	22,493	600	23,093
Changes of assumptions	21,409	1,081	22,490
Net difference between projected and actual earnings on plan investments	3,204	-	3,204
Changes in proportion and differences between Town contributions and proportionate share of contributions	4,313	-	4,313
Benefit payments and administrative expenses incurred subsequent to the measurement date	<u>29,925</u>	<u>326</u>	<u>30,251</u>
	<u>81,344</u>	<u>2,007</u>	<u>83,351</u>
Deferred inflows of resources:			
Differences between expected and actual experience	-	1,879	1,879
Changes of assumptions	-	623	623
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	<u>1,462</u>	<u>-</u>	<u>1,462</u>
	<u>1,462</u>	<u>2,502</u>	<u>3,964</u>

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Supplemental Retirement Income Plan for Law Enforcement Officers and General Employees

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. The law enforcement officers may make voluntary contributions to the plan.

The Town has elected to make the Supplemental Retirement Income Plan available to general employees. The Town contributes four percent of each general participant's salary, and the employees may make voluntary contributions. All amounts contributed are vested immediately.

The Town made contributions of \$14,261 for the reporting year. No amounts were forfeited.

OTHER POSTEMPLOYMENT BENEFIT – HEALTH CARE BENEFITS

Plan Description: Under the terms of a Town resolution, the Town administers a single-employer, defined benefit Health Care Plan (the HC Plan). The Town Council has the authority to establish and amend the benefit terms and financing requirements. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Benefits Provided: The HC Plan provides postemployment health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least 20 years of creditable service with the Town. The Town pays the full cost of coverage for these benefits through private insurers. Health care, prescription drug, dental, vision benefits, and life insurance are provided in the Town's group health insurance plan to eligible retirees for their lifetime. The retiree may continue dependent coverage (and pay the full cost of this coverage) if enrolled in dependent coverage at the time of retirement. Dependent coverage terminates upon the retiree's death. The Town is currently paying the dependent vision and dental coverage for one retiree. This subsidy is not expected to continue for any future retirees. The Town Council may amend the benefit provisions. A separate report was not issued for the HC Plan.

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Membership of the HC Plan consisted of the following at June 30, 2019, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees receiving benefits	1	1
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members	4	4
Total	<u>5</u>	<u>5</u>

Total OPEB Liability: The Town's total OPEB liability of \$564,047 was measured as of June 30, 2019, and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs: The total OPEB liability in the June 30, 2019, actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Inflation	2.50 percent
Salary increases	3.50 percent, average, including inflation
Discount rate	3.50 percent
Healthcare cost trend rates	Pre-Medicare – 7.00% for 2019 decreasing to an ultimate rate of 4.50% by 2026 Medicare – 5.00% for 2019 decreasing to an ultimate rate of 4.50% by 2021

The discount rate is based on the yield of the Bond Buyer General Obligation 20-year Municipal Bond Index as of the measurement date.

Changes in the Total OPEB Liability:

Balance at July 1, 2018	<u>\$ 507,896</u>
Changes for the year:	
Service cost	20,394
Interest	19,564
Changes of benefit terms	-
Differences between expected and actual experience	27,378
Changes of assumptions or other inputs	(1,170)
Benefit payments	<u>(10,015)</u>
Net changes	<u>56,151</u>
Balance at June 30, 2019	<u>\$ 564,047</u>

Changes in assumptions and other inputs reflect a change in the discount rate from 3.89% to 3.50%.

Mortality rates were based on the RP-2014 Total Data Set for Healthy Annuitants Mortality Table.

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

The actuarial assumptions used in the June 30, 2019, valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate: The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is one percentage point lower (2.50 percent) or one percentage point higher (4.50 percent) than the current discount rate:

	1% Decrease (2.50%)	Discount Rate (3.50%)	1% Increase (4.50%)
Total OPEB liability	\$ 662,789	\$ 564,047	\$ 485,499

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

	1% Decrease	Current Rate	1% Increase
Total OPEB liability	\$ 483,512	\$ 564,047	\$ 667,757

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB: For the year ended June 30, 2020, the Town recognized OPEB expense of \$33,436. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 23,663	\$ 945
Changes of assumptions or other inputs	-	46,338
Benefit payments and administrative expenses incurred subsequent to the measurement date	12,386	-
Total	<u>\$ 36,049</u>	<u>\$ 47,283</u>

\$12,386 reported as deferred outflows of resources related to OPEB resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total OPEB liability in the year ending June 30, 2021. Other amounts reported as deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Year Ending June 30,	
2021	\$ (8,283)
2022	(8,283)
2023	(8,283)
2024	(4,841)
2025	1,198
Thereafter	<u>4,872</u>
	<u>\$ (23,620)</u>

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 months 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 postemployment 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 \$487. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.16% and 0.14% of covered payroll, respectively.

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

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

Contributions to pension plan in current fiscal year (LGERS)	\$	29,925
Benefit payments and administrative expenses incurred subsequent to the measurement date (LEOSSA)		326
Benefit payments and administrative expenses for OPEB incurred subsequent to the measurement date		12,386
Differences between expected and actual experience		46,756
Changes of assumptions		22,490
Net difference between projected and actual earnings on plan investments		3,204
Changes in proportion and differences between employer contributions and proportionate share of contributions		<u>4,313</u>
	\$	<u>119,400</u>

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

	General Fund Balance Sheet	Statement of Net Position
Prepaid taxes (General Fund)	\$ -	\$ -
Taxes receivable, less penalties (General Fund)	44,763	-
Differences between expected and actual experience	-	2,824
Changes of assumptions	-	46,961
Changes in proportion and differences between employer contributions and proportionate share of contributions	<u>-</u>	<u>1,462</u>
	<u>\$ 44,763</u>	<u>\$ 51,247</u>

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town obtains general liability coverage of \$5 million, auto liability coverage of \$5 million per incident, and workers' compensation coverage up to statutory limits. The Town carries commercial insurance for all risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town participates in the National Flood Insurance Plan (NFIP). The Town does not own any property that is within an area that is designated as a Flood Hazard Area. As additional Flood Hazard Areas are designated within the limits of the Town, the need to carry flood insurance through the NFIP will be reconsidered.

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

COMMITMENTS

In September 2013, the Town entered into a water tank management contract. The annual fee is \$35,869 the first 3 contract years and \$12,041 for years 4 through 6. In year 7 and each third anniversary, the annual fee is to be adjusted to reflect the current cost of service. The adjustment is not to exceed 5% per annum. Any unpaid balance of the first three annual fees is payable should the Town cancel the contract in the first three years. The contract is for an indefinite period of time. The Town paid and expensed \$13,366 in the year ended June 30, 2020.

CLAIMS AND JUDGMENTS

At June 30, 2020, the Town had no litigation pending.

LONG-TERM OBLIGATIONS

Installment Purchases Payable

Installment purchases payable consisted of the following direct borrowings at June 30, 2020:

On June 5, 2018, the Town entered into a direct borrowing installment purchase contract with a vendor to finance the purchase of equipment for law enforcement. The financing contract requires \$770 for the first year and \$1,198 annually for years two through five at 0% interest. The contract is secured by the equipment and serviced by the General Fund. \$ 3,596

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

On July 9, 2019, the Town entered into a direct borrowing installment purchase contract with a bank to finance the purchase of equipment for law enforcement. The financing contract requires five annual payments of \$4,495 including interest at 6.522%. The contract is secured by the equipment and serviced by the General Fund.

18,568

TOTAL INSTALLMENT PURCHASES PAYABLE

\$ 22,164

In the event of default on either of the above loans, the vendor and/or bank may exercise any one or more of the following remedies: (a) declare the unpaid principal balance and any accrued interest immediately due and payable, (b) proceed with appropriate remedies available under the Uniform Commercial Code and North Carolina law with respect to security interest in any property, and (c) avail itself to any available remedies under the loan agreement(s).

(Left blank intentionally)

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

Annual debt service payments of the installment purchase as of June 30, 2020, are as follows:

Year Ending June 30,	Governmental Activities	
	Principal	Interest
2021	\$ 4,445	\$ 1,248
2022	4,664	1,030
2023	4,896	797
2024	3,947	548
2025	4,212	283
	<u>\$ 22,164</u>	<u>\$ 3,906</u>

CHANGES IN LONG-TERM LIABILITIES

The following is a summary of changes in the Town's long-term obligations for the year ended June 30, 2020:

	Balance July 1, 2019	Increases	Decreases	Balance June 30, 2020	Due Within One Year
Governmental activities:					
Direct borrowing installment purchases	\$ 4,794	\$ 18,568	\$ 1,198	\$ 22,164	\$ 4,445
Compensated absences	20,078	-	4,556	15,522	-
Net pension liability (LGERS)	86,147	19,698	-	105,845	-
Total pension liability (LEO)	14,418	4,163	-	18,581	-
Total OPEB liability	<u>444,409</u>	<u>63,233</u>	<u>-</u>	<u>507,642</u>	<u>-</u>
	<u>\$ 569,846</u>	<u>\$ 105,662</u>	<u>\$ 5,754</u>	<u>\$ 669,754</u>	<u>\$ 4,445</u>
Business-type activities:					
Compensated absences	\$ 5,318	\$ -	\$ -	\$ 5,318	\$ -
Net pension liability (LGERS)	20,846	4,666	-	25,512	-
Total OPEB liability	<u>63,487</u>	<u>-</u>	<u>7,082</u>	<u>56,405</u>	<u>-</u>
	<u>\$ 89,651</u>	<u>\$ 4,666</u>	<u>\$ 7,082</u>	<u>\$ 87,235</u>	<u>\$ -</u>

Compensated absences typically have been liquidated in the General and Water and Sewer Funds and are accounted for on a LIFO basis, assuming employees are taking leave time as it is earned.

At June 30, 2020, Town of Polkton had a legal debt margin of \$3,699,255.

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

OPERATING LEASES

The Town leases office equipment and garbage containers under various noncancellable operating leases. The annual minimum lease payments as of June 30, 2020, including the most recent renewal, are as follows:

Year Ending <u>June 30,</u>	
2021	\$ 43,200
2022	43,200
2023	43,200
2024	<u>35,422</u>
	<u>\$ 165,022</u>

Rent expense for the year ended June 30, 2020, was \$47,260.

C. INTERFUND BALANCES AND ACTIVITY

Transfers to/from other funds at June 30, 2020, consist of the following:

	<u>From</u>	<u>To</u>
<i>General Fund</i>		
To Water and Sewer Fund	\$ -	\$ 88,765
<i>Water and Sewer Fund</i>		
From General Fund	<u>88,765</u>	<u>-</u>
	<u>\$ 88,765</u>	<u>\$ 88,765</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts providing matching funds for various grant programs. The Town also transfers a portion of the local option sales tax revenue from the General Fund to the Water and Sewer Fund each year to help with operating costs.

TOWN OF POLKTON, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 4 - JOINT VENTURES

Rocky River Rural Planning Organization

The Town participates in a joint venture, Rocky River Planning Organization (RPO), with 3 counties and 13 other municipalities to work cooperatively with each other and the North Carolina Department of Transportation to enhance transportation planning opportunities for rural areas in the region. Rocky River RPO is the only RPO in the State not housed in a Council of Governments. The RPO's fiscal agent is the County of Stanly. None of the participating governments have any equity interest in the RPO, so no equity interest has been reflected in the financial statements at June 30, 2020. In accordance with the agreement between the participating governments and the RPO, the Town paid \$866 to the RPO during the fiscal year ended June 30, 2020, for membership dues. Complete financial statements for the RPO may be obtained from the RPO's office at 1000 North First Street, Suite 17; Albemarle, North Carolina 28001.

North Carolina Rural Water Association

The Town also participates in a joint venture, North Carolina Rural Water Association (NCRWA), with other municipal and county water systems and related businesses in North Carolina to help attain the highest standards in drinking water and wastewater service. NCRWA is governed by a volunteer board of directors from the association's membership. None of the participating governments or businesses have any equity interest in NCRWA, so no equity interest has been reflected in the financial statements at June 30, 2020. In accordance with the agreement between the Town and NCRWA, the Town paid \$280 to NCRWA during the year ended June 30, 2020, for membership dues based upon the Town's water connections. Complete financial statements for NCRWA can be obtained from NCRWA's office at PO Box 540, Welcome, North Carolina 27374.

NOTE 5 - SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

FEDERAL AND STATE ASSISTED PROGRAMS

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

NOTE 6 - SUBSEQUENT EVENT

In March 2020, the World Health Organization (WHO) classified the COVID-19 outbreak as a pandemic. As of the date of this report, the full impact of the COVID-19 pandemic continues to evolve. Management is monitoring the situation on an on-going basis. An estimate of the future financial impact, if any, is not practicable at this time.

REQUIRED SUPPLEMENTARY INFORMATION

This section contains additional information required by generally accepted accounting principles:

- Schedule of Proportionate Share of the Net Pension Liability (Asset) for Local Governmental Employees' Retirement System
- Schedule of Contributions for Local Governmental Employees' Retirement System
- Schedule of Changes in Total Pension Liability for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Total Pension Liability as a Percentage of Covered Payroll for the Law Enforcement Officers' Special Separation Allowance
- Schedule of Changes in the Total OPEB Liability and Related Ratios

**TOWN OF POLKTON, NORTH CAROLINA
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION
LIABILITY (ASSET)
Last Seven Fiscal Years***

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) (%)	0.00481%	0.00451%	0.00483%	0.00428%	0.00476%	0.00334%	0.00310%
Town's proportionate share of the net pension liability (asset) (\$)	\$ 131,357	\$ 106,993	\$ 73,789	\$ 90,836	\$ 21,363	\$ (19,698)	\$ 37,367
Town's covered payroll	\$ 319,404	\$ 300,063	\$ 284,981	\$ 283,772	\$ 259,994	\$ 199,335	\$ 171,861
Town's proportion of the net pension liability (asset) as a percentage of its covered payroll	41.13%	35.66%	25.89%	32.01%	8.22%	9.88%	21.74%
Plan fiduciary net position as a percentage of the total pension liability**	90.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ended June 30.

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

TOWN OF POLKTON, NORTH CAROLINA
LOCAL GOVERNMENTAL EMPLOYEES' RETIREMENT SYSTEM
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CONTRIBUTIONS
Last Seven Fiscal Years

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 29,925	\$ 26,071	\$ 23,650	\$ 21,691	\$ 19,788	\$ 18,709	\$ 14,228
Contributions in relation to the contractually required contribution	<u>29,925</u>	<u>26,071</u>	<u>23,650</u>	<u>21,691</u>	<u>19,788</u>	<u>18,709</u>	<u>14,228</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 320,329	\$ 319,404	\$ 300,063	\$ 284,981	\$ 283,772	\$ 259,994	\$ 199,335
Contributions as a percentage of covered-employee payroll	9.34%	8.16%	7.88%	7.61%	6.97%	7.20%	7.14%

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

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 14,418	\$ 12,180	\$ 12,004	\$ 10,137
Service cost	2,552	2,261	1,920	1,852
Interest on the total pension liability	525	385	463	362
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	517	212	(3,214)	-
Changes of assumptions or other inputs	569	(620)	1,007	(347)
Benefit payments	-	-	-	-
Other changes	-	-	-	-
Ending balance of the total pension liability	<u>\$ 18,581</u>	<u>\$ 14,418</u>	<u>\$ 12,180</u>	<u>\$ 12,004</u>

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

TOWN OF POLKTON, NORTH CAROLINA
LAW ENFORCEMENT OFFICER'S SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF
COVERED PAYROLL
June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Total pension liability	\$ 18,581	\$ 14,418	\$ 12,180	\$ 12,004	\$ 10,137
Covered payroll	\$ 136,795	\$ 112,601	\$ 107,849	\$ 110,572	\$ 110,572
Total pension liability as a percentage of covered payroll	13.58%	12.80%	11.29%	10.86%	9.17%

Notes to the schedules:

The Town of Polkton has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 73 to pay related benefits nor does the plan provide pay related benefits.

TOWN OF POLKTON, NORTH CAROLINA
OTHER POSTEMPLOYMENT BENEFITS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF CHANGES IN TOTAL OPEB LIABILITY AND RELATED RATIOS
June 30, 2020

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Service cost	\$ 20,394	\$ 21,649	\$ 24,533
Interest	19,564	17,861	15,649
Changes of benefit terms	-	-	-
Differences between expected and actual experience	27,378	(1,009)	(451)
Changes of assumptions or other inputs	(1,170)	(27,521)	(48,446)
Benefit payments	<u>(10,015)</u>	<u>(9,486)</u>	<u>(9,486)</u>
Net change in total OPEB liability	56,151	1,494	(18,201)
Total OPEB liability - beginning	<u>507,896</u>	<u>506,402</u>	<u>524,603</u>
Total OPEB liability - ending	<u>\$ 564,047</u>	<u>\$ 507,896</u>	<u>\$ 506,402</u>
Covered payroll	\$ 319,404	\$ 300,063	\$ 289,677
Total OPEB liability as a percentage of covered payroll	176.59%	169.26%	174.82%

Notes to schedule:

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

<u>Fiscal Year</u>	<u>Rate</u>
2020	3.50%
2019	3.89%
2018	3.56%
2017	3.01%

INDIVIDUAL FUND
STATEMENTS AND SCHEDULES

TOWN OF POLKTON, NORTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2020

Exhibit A-1
Page 1 of 3

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Ad valorem taxes			
Taxes	\$ 115,000	\$ 121,999	\$ 6,999
Penalties and interest	-	2,068	2,068
Total	<u>115,000</u>	<u>124,067</u>	<u>9,067</u>
Unrestricted intergovernmental			
Local option sales tax	630,000	636,867	6,867
Telecommunications sales tax	8,200	7,604	(596)
Utilities sales tax	32,000	35,696	3,696
Piped natural gas sales tax	-	1	1
Video franchise fee	1,200	1,383	183
Beer and wine tax	<u>13,000</u>	<u>11,393</u>	<u>(1,607)</u>
Total	<u>684,400</u>	<u>692,944</u>	<u>8,544</u>
Restricted intergovernmental			
Solid waste disposal tax	2,000	2,010	10
Powell Bill allocation	80,000	74,003	(5,997)
Controlled substance tax	<u>1,171</u>	<u>896</u>	<u>(275)</u>
Total	<u>83,171</u>	<u>76,909</u>	<u>(6,262)</u>
Permits and fees	<u>900</u>	<u>1,327</u>	<u>427</u>
Sales and services			
Refuse collection	<u>40,500</u>	<u>45,372</u>	<u>4,872</u>
Investment earnings	<u>5,514</u>	<u>14,369</u>	<u>8,855</u>
Miscellaneous	<u>4,196</u>	<u>7,136</u>	<u>2,940</u>
TOTAL REVENUES	<u>933,681</u>	<u>962,124</u>	<u>28,443</u>

TOWN OF POLKTON, NORTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2020

Exhibit A-1
Page 2 of 3

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
EXPENDITURES			
General government			
Governing body			
Salaries and employee benefits	-	13,538	-
Professional services	-	15,000	-
Other operating expenditures	-	3,848	-
Total	<u>33,745</u>	<u>32,386</u>	<u>1,359</u>
Finance			
Salaries and employee benefits	-	81,394	-
Other operating expenditures	-	41,448	-
Total	<u>125,680</u>	<u>122,842</u>	<u>2,838</u>
Public buildings			
Operating expenditures	-	16,411	-
Capital outlay	-	11,700	-
Total	<u>29,600</u>	<u>28,111</u>	<u>1,489</u>
Elections			
Operating expenditures	<u>2,400</u>	<u>2,349</u>	<u>51</u>
Total general government	<u>191,425</u>	<u>185,688</u>	<u>5,737</u>
Public safety			
Police			
Salaries and employee benefits	-	201,049	-
Other operating expenditures	-	39,402	-
Capital outlay	-	63,756	-
Total	<u>327,316</u>	<u>304,207</u>	<u>23,109</u>
Fire			
Operating expenditures	<u>25,000</u>	<u>25,010</u>	<u>(10)</u>
Inspections			
Operating expenditures	<u>1,400</u>	<u>-</u>	<u>1,400</u>
Total public safety	<u>353,716</u>	<u>329,217</u>	<u>24,499</u>

TOWN OF POLKTON, NORTH CAROLINA
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
For the Year Ended June 30, 2020

Exhibit A-1
Page 3 of 3

	Final Budget	Actual	Variance Positive (Negative)
Transportation			
Salaries and employee benefits	-	145,033	-
Other operating expenditures	-	183,368	-
Capital outlay	-	50,774	-
Total transportation	<u>389,955</u>	<u>379,175</u>	<u>10,780</u>
Environmental protection			
Sanitation			
Contracted services	-	46,261	-
Other operating expenditures	-	2,663	-
Total sanitation	<u>48,370</u>	<u>48,924</u>	<u>(554)</u>
Culture and recreation			
Operating expenditures	<u>21,025</u>	<u>15,732</u>	<u>5,293</u>
Debt service			
Principal retirement	<u>1,198</u>	<u>1,198</u>	<u>-</u>
TOTAL EXPENDITURES	<u>1,005,689</u>	<u>959,934</u>	<u>45,755</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(72,008)</u>	<u>2,190</u>	<u>74,198</u>
OTHER FINANCING SOURCES (USES)			
Transfers to Water and Sewer Fund	(88,765)	(88,765)	-
Sale of capital assets	3,674	7,200	3,526
Loan proceeds	<u>18,568</u>	<u>18,568</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(66,523)</u>	<u>(62,997)</u>	<u>3,526</u>
REVENUES AND OTHER SOURCES UNDER EXPENDITURES AND OTHER USES	<u>(138,531)</u>	<u>(60,807)</u>	<u>77,724</u>
APPROPRIATED FUND BALANCE	<u>138,531</u>	<u>-</u>	<u>(138,531)</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>(60,807)</u>	<u>\$ (60,807)</u>
FUND BALANCE, beginning		<u>2,152,277</u>	
FUND BALANCE, ending		<u>\$ 2,091,470</u>	

TOWN OF POLKTON, NORTH CAROLINA
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND
ACTUAL (NON-GAAP) - WATER AND SEWER FUND
For the Year Ended June 30, 2020

Exhibit B-1
Page 1 of 2

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Operating revenues:			
Water sales	\$ 119,908	\$ 118,140	\$ (1,768)
Sewer charges	<u>139,892</u>	<u>150,593</u>	<u>10,701</u>
Total charges for services	259,800	268,733	8,933
Other operating revenues	<u>4,000</u>	<u>6,855</u>	<u>2,855</u>
Total operating revenues	263,800	275,588	11,788
Nonoperating revenues:			
Investment earnings	<u>2,615</u>	<u>8,697</u>	<u>6,082</u>
TOTAL REVENUES	<u>266,415</u>	<u>284,285</u>	<u>17,870</u>
EXPENDITURES			
Administration and operations:			
Salaries and employee benefits	-	86,543	-
Office expenses	-	2,506	-
Utilities	-	885	-
Supplies	-	8,212	-
Tests, permits, and fees	-	4,535	-
Repairs and maintenance	-	27,043	-
Insurance	-	2,482	-
Mobile phones	-	644	-
Public service vehicle	-	2,982	-
Miscellaneous	-	982	-
Total	<u>140,720</u>	<u>136,814</u>	<u>3,906</u>
Water purchases	<u>60,000</u>	<u>42,203</u>	<u>17,797</u>
Sewer charges	<u>148,368</u>	<u>80,895</u>	<u>67,473</u>
Capital outlay	<u>6,092</u>	<u>5,870</u>	<u>222</u>
TOTAL EXPENDITURES	<u>355,180</u>	<u>265,782</u>	<u>89,398</u>

TOWN OF POLKTON, NORTH CAROLINA
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND
ACTUAL (NON-GAAP) - WATER AND SEWER FUND
For the Year Ended June 30, 2020

Exhibit B-1
Page 2 of 2

	Final Budget	Actual	Variance Positive (Negative)
REVENUES OVER (UNDER)			
EXPENDITURES	(88,765)	18,503	107,268
OTHER FINANCING SOURCES			
Transfers from General Fund	<u>88,765</u>	<u>88,765</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	<u>\$ -</u>	<u>\$ 107,268</u>	<u>\$ 107,268</u>

RECONCILIATION FROM BUDGETARY BASIS
(MODIFIED ACCRUAL) TO FULL ACCRUAL:

NET CHANGE IN FUND BALANCE **\$ 107,268**

RECONCILING ITEMS:

Capital outlay	5,870
Depreciation	(67,532)
Increase in deferred outflows of resources - OPEB	2,366
Decrease in deferred inflows of resources - OPEB	2,536
Decrease in OPEB liability	7,082
Decrease in deferred outflows of resources - pensions	(2,243)
Increase in net pension liability	(4,666)
Decrease in deferred inflows of resources - pensions	<u>260</u>

CHANGE IN NET POSITION (EXHIBIT 7) **\$ 50,941**

OTHER SCHEDULES

TOWN OF POLKTON, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2020

Exhibit C-1

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2019</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2020</u>
2019-2020	\$ -	\$ 125,598	\$ 116,842	\$ 8,756
2018-2019	9,488	-	1,994	7,494
2017-2018	5,794	-	528	5,266
2016-2017	5,123	-	542	4,581
2015-2016	4,148	-	259	3,889
2014-2015	4,134	-	504	3,630
2013-2014	4,022	-	636	3,386
2012-2013	3,845	-	495	3,350
2011-2012	2,532	-	57	2,475
2010-2011	2,140	-	204	1,936
2009-2010	1,497	-	1,497	-
	<u>\$ 42,723</u>	<u>\$ 125,598</u>	<u>\$ 123,558</u>	<u>\$ 44,763</u>

Reconcilement with revenues:

Ad valorem taxes - General Fund	\$ 124,067
Reconciling items:	
Collection of taxes previously written off	-
Taxes written off	1,497
Other adjustments	62
Interest collected	(2,068)
	<u>\$ 123,558</u>

TOWN OF POLKTON, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY - TOWN-WIDE LEVY
For the Year Ended June 30, 2020

Exhibit C-2

				<u>Total Levy</u>	
	<u>Town-wide</u>			Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
	<u>Property Valuation</u>	<u>Rate</u>	<u>Amount of Levy</u>		
Original levy:					
Property taxed at current year's rate	\$ 46,517,734	0.27	\$ 125,598	\$ 109,101	\$ 16,497
Penalties and adjustments	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
Total	46,517,734		125,598	109,101	16,497
Discoveries:					
Current and prior year taxes	-	0.27	-	-	-
Releases	<u>-</u>		<u>-</u>	<u>-</u>	<u>-</u>
Total property valuation	<u>\$ 46,517,734</u>				
Net levy			125,598	109,101	16,497
Unpaid (by taxpayer) taxes at June 30, 2020			<u>(8,756)</u>	<u>(8,756)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 116,842</u>	<u>\$ 100,345</u>	<u>\$ 16,497</u>
Current levy collection percentage			<u>93.03%</u>	<u>91.97%</u>	<u>100.00%</u>

COMPLIANCE SECTION

J. B. WATSON & CO., P.L.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

120 SOUTH RUTHERFORD STREET

P. O. BOX 341

WADESBORO, N.C. 28170

JAMES F. HANNA, CPA

DENEAL H. BENNETT, CPA

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INDEPENDENT AUDITORS' 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*

To the Honorable Mayor and
Members of the Town Council
Town of Polkton, North Carolina

We have audited, 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, the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of Town of Polkton, 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, and have issued our report thereon dated November 2, 2020.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Town of Polkton's internal control over financial reporting (internal control) as a basis for designing 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 Town of Polkton'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 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 the internal control was for the limited purposed described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses and significant deficiencies may exist that were not identified. We consider the deficiency described below, however, to be a material weakness.

Segregation of Duties:

In an organization such as Town of Polkton with a limited number of personnel for certain functions, there are inherent limitations of the effectiveness of certain controls due to the lack of segregation of duties among the Town personnel. We, therefore, recommend the Town separate duties as much as possible and provide alternative controls, including involvement of the Town Council with oversight and approvals, where feasible. The Town agrees with this finding and plans to alleviate the effects of this noted weakness where feasible and cost effective.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Polkton's financial statements are free of 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 financial statements. 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*.

Town of Polkton's Response to Findings

Town of Polkton's response to the finding identified in our audit is described above. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of This Report

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

A handwritten signature in black ink that reads "J. Wilson & Co., LLC". The signature is written in a cursive, flowing style.

November 2, 2020

TOWN OF POLKTON, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2020

Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	State/ Pass-through Grantor's Number	Grant Funds Expended		
			Federal (Direct & Pass-through) Expenditures	State Expenditures	Local Expenditures
State Grants:					
Cash assistance:					
NC Dept. of Transportation:					
Powell Bill			\$ -	\$ 198,490	\$ -
Total assistance			\$ -	\$ 198,490	\$ -

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

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of Town of Polkton under the programs of the federal government and the State of North Carolina for the year ended June 30, 2020. Because the SEFSA presents only a selected portion of the operations of Town of Polkton, it is not intended to, and does not, present the financial position, changes in net position, or cash flows of Town of Polkton.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.