

**REVIEWED**

*By SLGFD at 8:30 am, Dec 29, 2021*

**TOWN OF HIGHLANDS  
NORTH CAROLINA**

**BASIC FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2021**



**TOWN OF HIGHLANDS, NORTH CAROLINA**

**BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2021**

**Mayor:** Patrick Taylor

**Town Commissioners:** Donnie Calloway

John M. Dotson

Amy E. Patterson

Marc Hehn

Brian Stiehler

**Finance Director:** Rebecca Shuler

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# TOWN OF HIGHLANDS, NORTH CAROLINA

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

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

## **Independent Auditor's Report**

To the Honorable Mayor and  
Town Commissioners  
Town of Highlands  
Highlands, North Carolina

### ***Report on the Financial Statements***

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Highlands, North Carolina, as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the Town of Highlands' basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Highlands ABC Board. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Highlands ABC Board, is based solely on the report of the other auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. The financial statements of the Town of Highlands ABC Board were not audited in accordance with *Government Auditing Standards*.

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

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

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

### ***Opinions***

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Highlands, North Carolina, as of June 30, 2021, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund and the Fire Department Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Emphasis of a Matter***

As discussed in note 6 to the financial statements, for the fiscal year ended June 30, 2021, the Town of Highlands adopted new accounting guidance, Governmental Accounting Standards Board (GASB) No. 84, *Fiduciary Activities*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

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

### *Supplementary and Other Information*

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

The individual fund financial statements, budgetary schedules and other schedules are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the individual fund financial statements, budgetary schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

### **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2021 on our consideration of the Town of Highlands' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Highlands' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Highlands' internal control over financial reporting and compliance.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
November 30, 2021

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## **Management's Discussion and Analysis**

As management of the Town of Highlands, we offer readers of the Town of Highlands' financial statements this narrative overview and analysis of the financial activities of the Town of Highlands for the fiscal year ended June 30, 2021. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### **Financial Highlights**

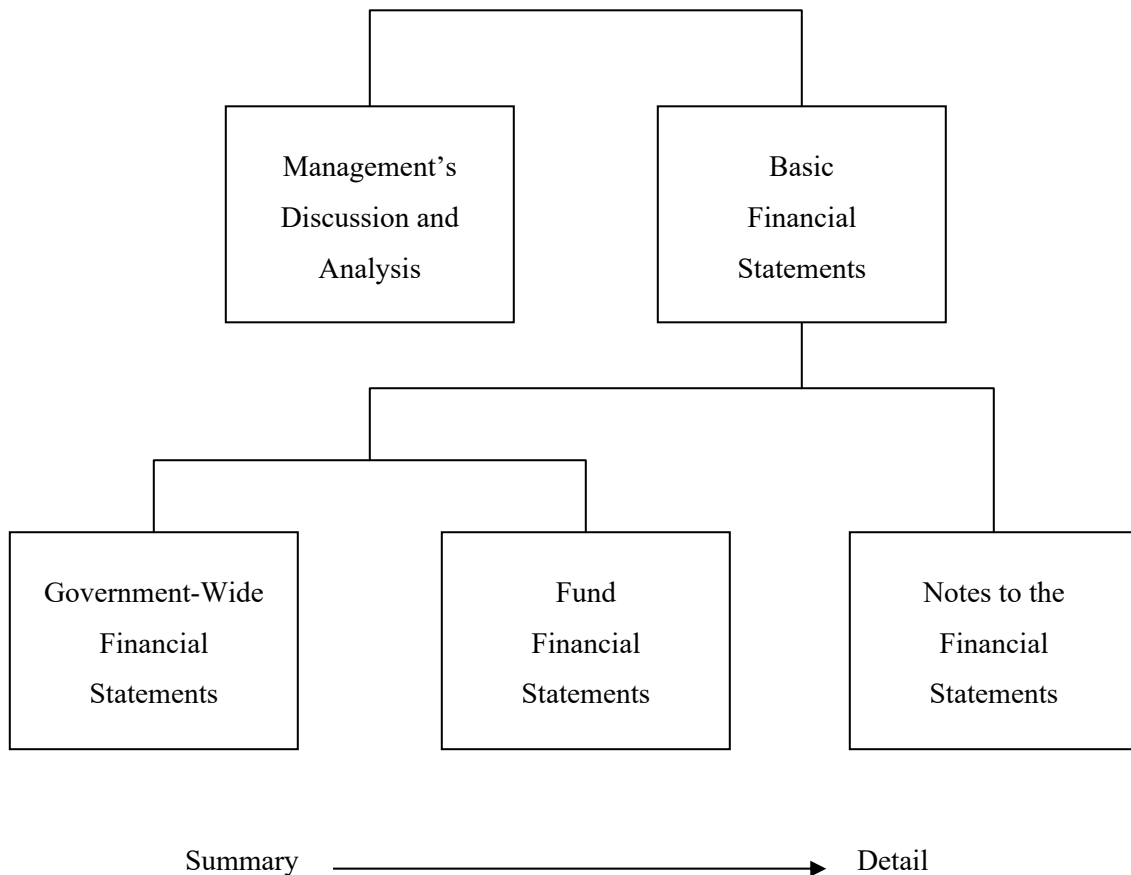
- The assets and deferred outflows of resources of the Town of Highlands exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$55,320,055 (*net position*).
- The government's total net position increased by \$3,094,440.
- As of the close of the current fiscal year, the Town of Highlands' governmental funds reported combined ending fund balances of \$13,697,898, an increase of \$5,946,148, in comparison with the prior year. Approximately 71 percent of this total amount, or \$9,662,680, is restricted or non-spendable.
- At the end of the current fiscal year, available fund balance for the General Fund was \$3,983,240, or 70 percent, of total General Fund expenditures.

### **Overview of the Financial Statements**

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

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

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

The next statements (Exhibits C through L) are **fund financial statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are four parts to the fund financial statements: 1) the governmental funds statements, 2) the budgetary comparison statements, 3) the proprietary fund statements, and 4) the fiduciary fund statements.

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

## **Government-Wide Financial Statements**

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

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

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services, such as public safety, transportation, culture and recreation, and general administration. Property taxes and federal and state grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide services. These include the water and sewer, electric, and sanitation services offered by the Town of Highlands.

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

## **Fund Financial Statements**

The fund financial statements provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Highlands, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Highlands can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental Funds.** Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*. This method also has a current financial resources focus. As a result, the governmental fund financial statements give the reader a detailed, short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

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

**Fiduciary Funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town of Highlands has two types of fiduciary funds, Private Purpose Trust Fund and Custodial Fund types. The Scholarship Fund and the Cemetery Fund are Private Purpose Trust Funds and the Fireman's Relief Fund is a Custodial Fund.

**Notes to the Financial Statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements follow Exhibit L of this report.

**Other Information.** In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Highlands' progress in funding its obligation to provide pension benefits and other post-employment benefits to its employees. Required supplementary information can be found beginning on Schedule A-1 of this report.

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



## Town of Highlands' Net Position

**Figure 2**

	Governmental		Business-Type		Total	
	Activities		Activities			
	2021	2020	2021	2020	2021	2020
<b>Assets:</b>						
Current and other assets	\$ 14,224,866	\$ 8,041,731	\$ 10,510,115	\$ 7,213,471	\$ 24,734,981	\$ 15,255,202
Capital assets, net	19,839,740	17,327,498	27,873,724	28,296,814	47,713,464	45,624,312
Deferred outflows of resources	797,874	607,512	398,923	323,261	1,196,797	930,773
Total assets and deferred outflows of resources	<u>34,862,480</u>	<u>25,976,741</u>	<u>38,782,762</u>	<u>35,833,546</u>	<u>73,645,242</u>	<u>61,810,287</u>
<b>Liabilities:</b>						
Liabilities	14,874,932	6,024,401	3,424,407	3,524,073	18,299,339	9,548,474
Deferred inflows of resources	17,864	25,773	7,984	10,425	25,848	36,198
Total liabilities and deferred inflows of resources	<u>14,892,796</u>	<u>6,050,174</u>	<u>3,432,391</u>	<u>3,534,498</u>	<u>18,325,187</u>	<u>9,584,672</u>
<b>Net Position:</b>						
Net investment in capital assets	14,167,232	14,755,208	26,893,777	27,223,517	41,061,009	41,978,725
Restricted	2,823,365	2,036,093	-	-	2,823,365	2,036,093
Unrestricted	<u>2,979,087</u>	<u>3,135,266</u>	<u>8,456,594</u>	<u>5,075,531</u>	<u>11,435,681</u>	<u>8,210,797</u>
Total net position	<u>\$ 19,969,684</u>	<u>\$ 19,926,567</u>	<u>\$ 35,350,371</u>	<u>\$ 32,299,048</u>	<u>\$ 55,320,055</u>	<u>\$ 52,225,615</u>

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Highlands exceeded liabilities and deferred inflows by \$55,320,055 as of June 30, 2021. The Town's net position increased by \$3,094,440 for the fiscal year ended June 30, 2021. The largest portion of net position (74%) reflects the Town's investment in capital assets (e.g. land, buildings, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town of Highlands uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the Town of Highlands' net position 17% represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$11,435,681 is unrestricted.

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

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

## Town of Highlands' Changes in Net Position

**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 513,445	\$ 468,145	\$ 11,431,551	\$ 9,386,054	\$ 11,944,996	\$ 9,854,199
Operating grants and contributions	2,484,767	1,517,993	-	-	2,484,767	1,517,993
Capital grants and contributions	35,270	784,628	8,774	150,000	44,044	934,628
General revenues:						
Property taxes	2,932,178	2,891,062	-	-	2,932,178	2,891,062
Other taxes	1,342,024	1,202,231	-	-	1,342,024	1,202,231
Unrestricted intergovernmental	287,879	302,900	-	-	287,879	302,900
Gain on sale of assets	-	-	-	-	-	-
Investment earnings, unrestricted	1,814	67,542	906	74,472	2,720	142,014
Total revenues	<u>7,597,377</u>	<u>7,234,501</u>	<u>11,441,231</u>	<u>9,610,526</u>	<u>19,038,608</u>	<u>16,845,027</u>
<b>Expenses:</b>						
General government	1,975,536	1,978,022	-	-	1,975,536	1,978,022
Public safety	3,358,327	1,912,828	-	-	3,358,327	1,912,828
Transportation	937,738	914,942	-	-	937,738	914,942
Economic development	-	-	-	-	-	-
Culture and recreation	1,004,732	947,097	-	-	1,004,732	947,097
Interest expense	262,229	167,667	-	-	262,229	167,667
Electric	-	-	4,650,201	4,567,112	4,650,201	4,567,112
Sanitation	-	-	763,151	876,916	763,151	876,916
Water and sewer	-	-	2,992,254	2,844,316	2,992,254	2,844,316
Total expenses	<u>7,538,562</u>	<u>5,920,556</u>	<u>8,405,606</u>	<u>8,288,344</u>	<u>15,944,168</u>	<u>14,208,900</u>
Change in net position before transfers	58,815	1,313,945	3,035,625	1,322,182	3,094,440	2,636,127
Transfers in (out)	<u>(15,698)</u>	<u>1,484,302</u>	<u>15,698</u>	<u>(1,484,302)</u>	<u>-</u>	<u>-</u>
Change in net position	43,117	2,798,247	3,051,323	(162,120)	3,094,440	2,636,127
<b>Net Position:</b>						
Beginning of year - July 1	<u>19,926,567</u>	<u>17,128,320</u>	<u>32,299,048</u>	<u>32,461,168</u>	<u>52,225,615</u>	<u>49,589,488</u>
End of year - June 30	<u>\$ 19,969,684</u>	<u>\$ 19,926,567</u>	<u>\$ 35,350,371</u>	<u>\$ 32,299,048</u>	<u>\$ 55,320,055</u>	<u>\$ 52,225,615</u>

**Governmental Activities.** Governmental activities increased the Town's net position by \$43,117. Key elements of this increase are as follows:

- Decreases in non-recurring costs relating to general government functions
- Increase in Citizen remodeling and construction

**Business-Type Activities.** Business-type activities decreased the Town's net position by \$3,051,323. Key elements of this increase are as follows:

- Continued completion of capital projects
- Additions of newly added capital projects

### **Financial Analysis of the Town's Funds**

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

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

The General Fund is the chief operating fund of the Town of Highlands. At the end of the current fiscal year, the Town of Highland's fund balance available in the General Fund was \$3,983,240, while total fund balance reached \$4,403,836. The Town currently has available fund balance of 70% of General Fund expenditures, while total fund balance represents 77% of the same amount.

At June 30, 2021, the governmental funds of the Town of Highlands reported a combined fund balance of \$13,697,898 with a net increase in fund balance of \$5,946,148. The key elements for this increase are primarily due to the completion of capital projects.

**General Fund Budgetary Highlights.** During the fiscal year, the Town revised the budget at the end of the fiscal year. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as federal and state grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund increased expenditures by approximately \$617,000 (10%). Amendments were necessary due to conservatism used in compiling the original budget.

**Proprietary Funds.** The Town of Highlands' proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year totaled \$2,298,744. The total decrease in net position for the Water and Sewer Fund was \$403,483. This decrease is due to an increase in capital projects completion. Unrestricted net position of the Electric Fund at the end of the fiscal year totaled \$5,861,075. The total increase in net position for the Electric Fund was \$3,232,336. The increase was due to a decrease in transfers for capital projects. Unrestricted net position of the Sanitation Fund at the end of the fiscal year totaled \$296,775. The total increase in net position for the Sanitation Fund was \$222,470. This increase was due to a decrease in expenditures versus revenues.

## Capital Assets and Debt Administration

**Capital Assets.** The Town of Highlands' capital assets for its governmental and business-type activities as of June 30, 2021 totals \$47,713,464 (net of accumulated depreciation). These assets include buildings, land, improvements, equipment, vehicles, infrastructure, plants and distribution systems, and construction in progress.

Major capital asset transactions during the year include:

- Waterline Improvements
- Water and Wastewater Treatment Plant upgrades to equipment and SCADA
- Paving improvements to multiple Streets in Town
- Community building upgrades continued
- Several new vehicle and equipment purchases throughout various departments
- Development of a Comprehensive Plan

### Town of Highlands' Capital Assets (net of depreciation)

Figure 4

	<b>Governmental Activities</b>		<b>Business-Type Activities</b>		<b>Total</b>	
	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>	<b>2021</b>	<b>2020</b>
Land	\$ 1,535,281	\$ 1,535,281	\$ 399,040	\$ 399,040	\$ 1,934,321	\$ 1,934,321
Buildings and improvements	8,495,105	8,124,680	-	-	8,495,105	8,124,680
Equipment and vehicles	6,375,096	6,226,523	4,003,424	3,671,783	10,378,520	9,898,306
Recreation facilities	5,819,047	5,819,047	-	-	5,819,047	5,819,047
Infrastructure	4,263,211	3,420,503	-	-	4,263,211	3,420,503
Plant and distribution systems	-	-	40,304,899	38,191,970	40,304,899	38,191,970
Construction in progress	4,960,594	2,992,501	-	1,793,816	4,960,594	4,786,317
Subtotal	31,448,334	28,118,535	44,707,363	44,056,609	76,155,697	72,175,144
Accumulated depreciation	(11,608,594)	(10,791,037)	(16,833,639)	(15,759,795)	(28,442,233)	(26,550,832)
Capital assets, net	<u>\$ 19,839,740</u>	<u>\$ 17,327,498</u>	<u>\$ 27,873,724</u>	<u>\$ 28,296,814</u>	<u>\$ 47,713,464</u>	<u>\$ 45,624,312</u>

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

**Long-Term Debt.** As of June 30, 2021, the Town had no bonded debt outstanding. The Town did have installment debt as follows:

### Town of Highlands' Long-Term Debt

**Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2021	2020	2021	2020	2021	2020
Installment debt	\$ 12,486,666	\$ 4,722,164	\$ 979,947	\$ 1,166,647	\$ 13,466,613	\$ 5,888,811
Total debt	\$ 12,486,666	\$ 4,722,164	\$ 979,947	\$ 1,166,647	\$ 13,466,613	\$ 5,888,811

The Town of Highlands' total debt increased by \$7,577,802 (129%) during the past fiscal year, primarily due to debt issued for the fire department project during the fiscal year.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within the government's boundaries. The legal debt margin for the Town of Highlands is \$134,245,000.

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

### Budget Highlights for the Fiscal Year Ending June 30, 2022

**Governmental Activities.** The Town Manager's recommended operating budget for fiscal year 2022 was adopted by the Town Board on June 17, 2021. The fiscal year 2022 budget includes an ad valorem tax rate of \$.1565 per \$100. This will enable the Town of Highlands to maintain a revenue neutral tax rate, but does include a .015 earmarked for street paving projects. The fiscal year 2020 budget also includes a Highlands Volunteer Fire Department tax rate of \$.03 per \$100. There was a 3% COLA adjustment for all full-time employees is included in the fiscal year 2022 budget. The Town will use any increases in revenues to finance programs currently in place and to cover any unanticipated increases in expenditures.

During fiscal year 2020/21 municipalities were hit once again with COVID-19 that restricted a lot of activities and income, as people were hit hard financially and quarantined. Due to this epidemic, budgeting of capital projects, COLA adjustments, and any major increases were held to a minimum.

**Business-Type Activities.** The rates in the sanitation, electric, and water and sewer funds rates all remained the same.

### Requests for Information

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

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## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF NET POSITION  
JUNE 30, 2021

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Town of Highlands ABC Board
<b>Assets:</b>				
Cash and investments	\$ 6,835,320	\$ 8,644,654	\$ 15,479,974	\$ 797,865
Restricted cash and investments	6,937,140	55,959	6,993,099	-
Taxes receivable, net	21,493	-	21,493	-
Accounts receivable, net	405,756	1,242,692	1,648,448	-
Prepaid items	-	-	-	11,186
Inventories	25,157	566,810	591,967	498,216
Capital assets:				
Land and construction in progress	6,495,875	399,040	6,894,915	-
Other capital assets, net of depreciation	13,343,865	27,474,684	40,818,549	148,181
Total capital assets	19,839,740	27,873,724	47,713,464	148,181
Total assets	34,064,606	38,383,839	72,448,445	1,455,448
<b>Deferred Outflows of Resources:</b>				
Pension deferrals	797,874	398,923	1,196,797	32,934
<b>Liabilities:</b>				
Accounts payable and accrued expenses	505,475	223,500	728,975	175,876
Accrued interest payable	154,365	-	154,365	-
Liabilities payable from restricted assets:				
Customer deposits	-	55,959	55,959	-
Non-current liabilities:				
Net pension liability (LGERS)	994,519	666,766	1,661,285	49,670
Total pension liability (LEOSSA)	588,871	-	588,871	-
Due in less than one year	876,703	405,466	1,282,169	-
Due in more than one year	11,754,999	2,072,716	13,827,715	-
Total liabilities	14,874,932	3,424,407	18,299,339	225,546
<b>Deferred Inflows of Resources:</b>				
Pension deferrals	17,864	7,984	25,848	-
<b>Net Position:</b>				
Net investment in capital assets	14,167,232	26,893,777	41,061,009	148,181
Restricted for:				
Stabilization by state statute	405,756	-	405,756	-
Streets	122,982	-	122,982	-
Fire protection	2,294,627	-	2,294,627	-
Capital improvements	-	-	-	536,853
Working capital	-	-	-	89,746
Unrestricted	2,979,087	8,456,594	11,435,681	488,056
Total net position	\$ 19,969,684	\$ 35,350,371	\$ 55,320,055	\$ 1,262,836

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

TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2021

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 1,975,536	\$ 364,572	\$ 419,415	\$ -
Public safety	3,358,327	34,011	1,466,037	-
Transportation	937,738	-	49,315	-
Culture and recreation	1,004,732	114,862	550,000	35,270
Interest on long-term debt	262,229	-	-	-
Total governmental activities	<u>7,538,562</u>	<u>513,445</u>	<u>2,484,767</u>	<u>35,270</u>
<b>Business-Type Activities:</b>				
Water and Sewer Fund	2,992,254	2,440,085	-	8,774
Sanitation Fund	763,151	755,471	-	-
Electric Fund	4,650,201	8,235,995	-	-
Total business-type activities	<u>8,405,606</u>	<u>11,431,551</u>	<u>-</u>	<u>8,774</u>
Total primary government	<u>\$ 15,944,168</u>	<u>\$ 11,944,996</u>	<u>\$ 2,484,767</u>	<u>\$ 44,044</u>
<b>Component Unit:</b>				
Town of Highlands ABC Board	<u>\$ 2,773,817</u>	<u>\$ 3,069,500</u>	<u>\$ -</u>	<u>\$ -</u>

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



**TOWN OF HIGHLANDS, NORTH CAROLINA**

**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	<u>Net Revenue (Expense) and Changes in Net Position</u>			<u>Component Unit</u>
	<u>Primary Government</u>			<u>Town of Highlands ABC Board</u>
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ (1,191,549)	\$ -	\$ (1,191,549)	
Public safety	(1,858,279)	-	(1,858,279)	
Transportation	(888,423)	-	(888,423)	
Culture and recreation	(304,600)	-	(304,600)	
Interest on long-term debt	(262,229)	-	(262,229)	
Total governmental activities	<u>(4,505,080)</u>	<u>-</u>	<u>(4,505,080)</u>	
<b>Business-Type Activities:</b>				
Water and Sewer Fund	-	(543,395)	(543,395)	
Sanitation Fund	-	(7,680)	(7,680)	
Electric Fund	-	3,585,794	3,585,794	
Total business-type activities	<u>-</u>	<u>3,034,719</u>	<u>3,034,719</u>	
Total primary government	<u>(4,505,080)</u>	<u>3,034,719</u>	<u>(1,470,361)</u>	
<b>Component Unit:</b>				
Town of Highlands ABC Board				<u>\$ 295,683</u>
<b>General Revenues:</b>				
Ad valorem taxes	2,932,178	-	2,932,178	-
Local option sales tax	1,342,024	-	1,342,024	-
Unrestricted intergovernmental	287,879	-	287,879	-
Investment earnings, unrestricted	1,814	906	2,720	110
Total general revenues, excluding transfers	<u>4,563,895</u>	<u>906</u>	<u>4,564,801</u>	<u>110</u>
Transfers	(15,698)	15,698	-	-
Total general revenues and transfers	<u>4,548,197</u>	<u>16,604</u>	<u>4,564,801</u>	<u>110</u>
Change in net position	43,117	3,051,323	3,094,440	295,793
<b>Net Position:</b>				
Beginning of year - July 1	<u>19,926,567</u>	<u>32,299,048</u>	<u>52,225,615</u>	<u>967,043</u>
End of year - June 30	<u>\$ 19,969,684</u>	<u>\$ 35,350,371</u>	<u>\$ 55,320,055</u>	<u>\$ 1,262,836</u>

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

## BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2021

	Major			Total
	General Fund	Capital Projects Fund	Fire Department Fund	Governmental Funds
<b>Assets:</b>				
Cash and investments	\$ 4,053,472	\$ 477,110	\$ 2,304,738	\$ 6,835,320
Restricted cash and investments	122,982	6,814,158	-	6,937,140
Inventory	25,157	-	-	25,157
Taxes receivable, net	21,493	-	-	21,493
Accounts receivable, net	395,439	-	10,317	405,756
Total assets	<u>\$ 4,618,543</u>	<u>\$ 7,291,268</u>	<u>\$ 2,315,055</u>	<u>\$ 14,224,866</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>				
<b>Liabilities:</b>				
Accounts payable and accrued expenses	\$ 193,214	\$ 302,150	\$ 10,111	\$ 505,475
<b>Deferred Inflows of Resources:</b>				
Property taxes receivable	21,493	-	-	21,493
<b>Fund Balances:</b>				
Non-spendable:				
Inventory	25,157	-	-	25,157
Restricted:				
Stabilization by state statute	395,439	-	10,317	405,756
Restricted for general government	-	583,348	-	583,348
Restricted for streets	122,982	-	-	122,982
Restricted for fire protection	-	6,230,810	2,294,627	8,525,437
Committed for general government	-	174,960	-	174,960
Unassigned	3,860,258	-	-	3,860,258
Total fund balances	<u>4,403,836</u>	<u>6,989,118</u>	<u>2,304,944</u>	<u>13,697,898</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 4,618,543</u>	<u>\$ 7,291,268</u>	<u>\$ 2,315,055</u>	

Amounts reported for governmental activities in the Statement of Net Position (Exhibit A) are different due to the following items:

Capital assets, net of accumulated depreciation, used in governmental activities are not current financial resources and, therefore, are not reported in the funds.	19,839,740
Deferred inflows of resources in the governmental funds are used to offset accounts receivable not expected to be available within 90 days of year-end. These receivables are a component of net position in the Statement of Net Position.	21,493
Total pension liability (LEOSSA)	(588,871)
Net pension liability (LGRS)	(994,519)
Long-term liabilities, accrued interest, and compensated absences are not due and payable in the current period and, therefore, not reported in the funds.	(12,786,067)
Pension related deferrals	780,010
Net position of governmental activities, per Exhibit A	<u>\$ 19,969,684</u>

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2021

	Major			
	General	Capital Projects Fund	Fire Department Fund	Total
<b>Revenues:</b>				
Ad valorem taxes	\$ 2,934,410	\$ -	\$ -	\$ 2,934,410
Other taxes and licenses	1,342,024	-	-	1,342,024
Unrestricted intergovernmental revenues	287,879	-	-	287,879
Restricted intergovernmental revenues	870,030	-	1,166,351	2,036,381
Permits and fees	116,589	-	-	116,589
Sales and services	362,845	-	-	362,845
Investment earnings	939	505	370	1,814
Contributions	37,750	-	25,721	63,471
Miscellaneous	420,185	-	34,011	454,196
Total revenues	<u>6,372,651</u>	<u>505</u>	<u>1,226,453</u>	<u>7,599,609</u>
<b>Expenditures:</b>				
Current:				
General government	1,911,200	1,198,903	-	3,110,103
Public safety	1,359,538	2,269,190	516,286	4,145,014
Transportation	1,264,497	-	-	1,264,497
Culture and recreation	1,094,848	-	-	1,094,848
Debt service:				
Principal	-	367,749	-	367,749
Interest	62,489	93,063	-	155,552
Total expenditures	<u>5,692,572</u>	<u>3,928,905</u>	<u>516,286</u>	<u>10,137,763</u>
Revenues over (under) expenditures	<u>680,079</u>	<u>(3,928,400)</u>	<u>710,167</u>	<u>(2,538,154)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in (out)	(476,510)	460,812	-	(15,698)
Long-term debt issued	-	8,500,000	-	8,500,000
Total other financing sources (uses)	<u>(476,510)</u>	<u>8,960,812</u>	<u>-</u>	<u>8,484,302</u>
Net change in fund balances	203,569	5,032,412	710,167	5,946,148
<b>Fund Balances:</b>				
Beginning of year - July 1	<u>4,200,267</u>	<u>1,956,706</u>	<u>1,594,777</u>	<u>7,751,750</u>
End of year - June 30	<u>\$ 4,403,836</u>	<u>\$ 6,989,118</u>	<u>\$ 2,304,944</u>	<u>\$ 13,697,898</u>

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

# TOWN OF HIGHLANDS, NORTH CAROLINA

## RECONCILIATION OF THE STATEMENT OF REVENUES EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2021

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different due to the following items:

Net change in fund balances - total governmental funds (Exhibit D)	\$ 5,946,148
Property tax revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds statement.	(2,232)
Compensated absences expense reported in the Statement of Activities does not require the use of current financial resources and, therefore, is not reported as expenditures in governmental funds statement.	(602)
Accrued interest is not due and payable in the current period and, therefore, is not reported in the governmental funds statement.	(106,677)
Change in deferred outflow - pension	190,362
Change in deferred inflows - pension	7,909
Change in net pension liability	(371,782)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	3,368,385
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has an effect on net position.	(8,132,251)
Gain/(loss) on disposal of capital assets are reported in the Statement of Activities, however, proceeds from the sale of assets are not affected by gain/(loss) in the governmental funds statements.	(19,615)
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	<u>(836,528)</u>
Change in net position of governmental activities (Exhibit B)	<u>\$ 43,117</u>

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

**GENERAL FUND**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	<b>Budgeted Amounts</b>			<b>Variance</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Over/Under</b>
<b>Revenues:</b>				
Ad valorem taxes	\$ 2,819,000	\$ 2,819,000	\$ 2,934,410	\$ 115,410
Other taxes and licenses	970,000	1,023,486	1,342,024	318,538
Unrestricted intergovernmental revenues	270,000	270,000	287,879	17,879
Restricted intergovernmental revenues	652,700	867,483	870,030	2,547
Permits and fees	52,000	52,000	116,589	64,589
Sales and services	129,250	201,450	362,845	161,395
Investment earnings	20,002	20,002	939	(19,063)
Contributions	3,500	34,500	37,750	3,250
Miscellaneous	146,768	405,907	420,185	14,278
Total revenues	<u>5,063,220</u>	<u>5,693,828</u>	<u>6,372,651</u>	<u>678,823</u>
<b>Expenditures:</b>				
Current:				
General government	2,020,960	2,151,260	1,911,200	240,060
Public safety	1,495,850	1,576,850	1,359,538	217,312
Transportation	1,256,500	1,491,500	1,264,497	227,003
Culture and recreation	1,217,828	1,388,828	1,094,848	293,980
Debt service:				
Interest	62,000	62,000	62,489	(489)
Total expenditures	<u>6,053,138</u>	<u>6,670,438</u>	<u>5,692,572</u>	<u>977,866</u>
Revenues over (under) expenditures	<u>(989,918)</u>	<u>(976,610)</u>	<u>680,079</u>	<u>1,656,689</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in (out)	(479,698)	(725,265)	(476,510)	248,755
Appropriated fund balance	<u>1,469,616</u>	<u>1,701,875</u>	<u>-</u>	<u>(1,701,875)</u>
Total other financing sources (uses)	<u>989,918</u>	<u>976,610</u>	<u>(476,510)</u>	<u>(1,453,120)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>203,569</u>	<u>\$ 203,569</u>
<b>Fund Balance:</b>				
Beginning of year - July 1			<u>4,200,267</u>	
End of year - June 30			<u>\$ 4,403,836</u>	

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

**FIRE DEPARTMENT FUND - ANNUALLY BUDGETED MAJOR SPECIAL REVENUE FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2021**

	<b>Budgeted Amounts</b>			<b>Variance</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Over/Under</b>
<b>Revenues:</b>				
Macon County Fire District	\$ 1,055,180	\$ 1,055,180	\$ 1,089,351	\$ 34,171
Jackson County Fire District	50,000	50,000	77,000	27,000
Miscellaneous revenue	-	-	34,011	34,011
Charitable contributions	10,000	10,000	25,721	15,721
Investment earnings	-	-	370	370
Total revenues	<u>1,115,180</u>	<u>1,115,180</u>	<u>1,226,453</u>	<u>111,273</u>
<b>Expenditures:</b>				
Public safety:				
Salaries and benefits	221,500	221,500	174,406	47,094
Operating expenditures	234,000	234,000	153,414	80,586
Capital outlay	<u>659,680</u>	<u>2,159,680</u>	<u>188,466</u>	<u>1,971,214</u>
Total public safety	<u>1,115,180</u>	<u>2,615,180</u>	<u>516,286</u>	<u>2,098,894</u>
Total expenditures	<u>1,115,180</u>	<u>2,615,180</u>	<u>516,286</u>	<u>2,098,894</u>
Revenues over (under) expenditures	-	(1,500,000)	710,167	2,210,167
<b>Other Financing Sources (Uses):</b>				
Transfers in (out)	<u>-</u>	<u>1,500,000</u>	<u>-</u>	<u>(1,500,000)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	710,167	<u>\$ 710,167</u>
<b>Fund Balance:</b>				
Beginning of year, July 1			<u>1,594,777</u>	
End of year, June 30			<u>\$ 2,304,944</u>	

## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF NET POSITION  
PROPRIETARY FUNDS  
JUNE 30, 2021

	Business-Type Activities			
	Enterprise Funds			
	Water and Sewer Fund	Electric Fund	Sanitation Fund	Total
<b>Assets:</b>				
Current assets:				
Cash and investments	\$ 1,998,909	\$ 6,340,850	\$ 304,895	\$ 8,644,654
Restricted cash and investments	4,969	50,990	-	55,959
Inventory	167,551	399,259	-	566,810
Accounts receivable, net	402,447	736,017	104,228	1,242,692
Total current assets	<u>2,573,876</u>	<u>7,527,116</u>	<u>409,123</u>	<u>10,510,115</u>
Non-current assets:				
Net pension asset				
Capital assets:				
Land and construction in progress	399,040	-	-	399,040
Other capital assets, net of depreciation	25,919,562	1,225,431	329,691	27,474,684
Capital assets, net	<u>26,318,602</u>	<u>1,225,431</u>	<u>329,691</u>	<u>27,873,724</u>
Total assets	<u>28,892,478</u>	<u>8,752,547</u>	<u>738,814</u>	<u>38,383,839</u>
<b>Deferred Outflows of Resources:</b>				
Pension deferrals	<u>170,824</u>	<u>150,932</u>	<u>77,167</u>	<u>398,923</u>
<b>Liabilities:</b>				
Current liabilities:				
Accounts payable and accrued expenses	97,336	85,815	40,349	223,500
Accrued vacation	54,889	70,667	16,560	142,116
Current portion of long-term debt	93,350	170,000	-	263,350
Liabilities payable from restricted assets:				
Customer deposits	4,969	50,990	-	55,959
Total current liabilities	<u>250,544</u>	<u>377,472</u>	<u>56,909</u>	<u>684,925</u>
Non-current liabilities:				
Net pension liability	284,672	262,038	120,056	666,766
Long-term debt	886,597	1,186,119	-	2,072,716
Total non-current liabilities	<u>1,171,269</u>	<u>1,448,157</u>	<u>120,056</u>	<u>2,739,482</u>
Total liabilities	<u>1,421,813</u>	<u>1,825,629</u>	<u>176,965</u>	<u>3,424,407</u>
<b>Deferred Inflows of Resources:</b>				
Pension deferrals	<u>4,090</u>	<u>(8,656)</u>	<u>12,550</u>	<u>7,984</u>
<b>Net Position:</b>				
Net investment in capital assets	25,338,655	1,225,431	329,691	26,893,777
Unrestricted	<u>2,298,744</u>	<u>5,861,075</u>	<u>296,775</u>	<u>8,456,594</u>
Total net position	<u>\$ 27,637,399</u>	<u>\$ 7,086,506</u>	<u>\$ 626,466</u>	<u>\$ 35,350,371</u>

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION - PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2021

	Business-Type Activities			
	Enterprise Funds			
	Water and Sewer Fund	Electric Fund	Sanitation Fund	Total
<b>Operating Revenues:</b>				
Charges for services	\$ 2,426,948	\$ 6,010,178	\$ 755,471	\$ 9,192,597
Other operating revenues	13,137	2,225,817	-	2,238,954
Total operating revenues	2,440,085	8,235,995	755,471	11,431,551
<b>Operating Expenses:</b>				
Operations	2,070,773	4,514,378	713,429	7,298,580
Depreciation	921,481	135,823	49,722	1,107,026
Total operating expenses	2,992,254	4,650,201	763,151	8,405,606
Operating income (loss)	(552,169)	3,585,794	(7,680)	3,025,945
<b>Non-Operating Revenues (Expenses):</b>				
Investment earnings	142	764	-	906
Income (loss) before transfers and capital contributions	(552,027)	3,586,558	(7,680)	3,026,851
Capital contributions	8,774	-	-	8,774
<b>Transfers:</b>				
Transfer to/from General Fund	15,698	-	-	15,698
Transfers from Electric Fund	124,072	-	230,150	354,222
Transfer to sanitation	-	(230,150)	-	(230,150)
Transfers to Water and Sewer Fund	-	(124,072)	-	(124,072)
Total transfers	139,770	(354,222)	230,150	15,698
Change in net position	(403,483)	3,232,336	222,470	3,051,323
<b>Net Position:</b>				
Beginning of year - July 1	28,040,882	3,854,170	403,996	32,299,048
End of year - June 30	\$ 27,637,399	\$ 7,086,506	\$ 626,466	\$ 35,350,371

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



## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2021

	Business-Type Activities			
	Enterprise Funds			
	Water and Sewer Fund	Electric Fund	Sanitation Fund	Total
<b>Cash Flows from Operating Activities:</b>				
Cash received from customers	\$ 2,395,834	\$ 8,177,497	\$ 752,121	\$ 11,325,452
Cash paid to or on behalf of employees	(931,914)	(775,130)	(397,422)	(2,104,466)
Customer deposits received	-	2,333	-	2,333
Cash paid for goods and services	(1,120,929)	(3,750,141)	(295,928)	(5,166,998)
Net cash provided (used) by operating activities	<u>342,991</u>	<u>3,654,559</u>	<u>58,771</u>	<u>4,056,321</u>
<b>Cash Flows from Non-Capital Financing Activities:</b>				
Transfers in (out)	139,770	(354,222)	230,150	15,698
Net cash provided (used) by non-capital financing activities	<u>139,770</u>	<u>(354,222)</u>	<u>230,150</u>	<u>15,698</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>				
Acquisition and construction of capital assets	(375,266)	(134,664)	(174,006)	(683,936)
Debt principal	(93,350)	(83,357)	-	(176,707)
Federal and state grants	8,774	-	-	8,774
Net cash provided (used) by capital and related financing activities	<u>(459,842)</u>	<u>(218,021)</u>	<u>(174,006)</u>	<u>(851,869)</u>
<b>Cash Flows from Investing Activities:</b>				
Interest on investments	142	764	-	906
Net increase (decrease) in cash and cash equivalents	23,061	3,083,080	114,915	3,221,056
<b>Cash and Cash Equivalents:</b>				
Beginning of year - July 1	<u>1,980,817</u>	<u>3,308,760</u>	<u>189,980</u>	<u>5,479,557</u>
End of year - June 30	<u>\$ 2,003,878</u>	<u>\$ 6,391,840</u>	<u>\$ 304,895</u>	<u>\$ 8,700,613</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>				
Operating income (loss)	\$ (552,169)	\$ 3,585,794	\$ (7,680)	\$ 3,025,945
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	921,481	135,823	49,722	1,107,026
Changes in assets and liabilities:				
Increase (decrease) in net pension liability	70,021	61,783	32,951	164,755
(Increase) decrease in deferred outflows of resources for pensions	(32,157)	(28,373)	(15,132)	(75,662)
Increase (decrease) in deferred inflows of resources for pensions	(1,037)	(915)	(488)	(2,440)
Changes in assets and liabilities:				
(Increase) decrease in accounts receivable	(44,251)	(58,498)	(3,350)	(106,099)
(Increase) decrease in inventory	6,150	24,358	-	30,508
Increase (decrease) in accounts payable and accrued liabilities	(25,047)	(67,746)	2,748	(90,045)
Increase (decrease) in customer deposits	-	2,333	-	2,333
Net cash provided (used) by operating activities	<u>\$ 342,991</u>	<u>\$ 3,654,559</u>	<u>\$ 58,771</u>	<u>\$ 4,056,321</u>

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS  
 JUNE 30, 2021

	Private-Purpose Trust Funds	Custodial Fund
<b>Assets:</b>		
Cash and cash equivalents	\$ 1,172,290	\$ 283,491
Accounts receivable	215	-
Total assets	<u>1,172,505</u>	<u>283,491</u>
<b>Liabilities:</b>		
Accounts payable	<u>3,196</u>	<u>-</u>
<b>Net Position:</b>		
Restricted for:		
Individuals, organizations and other governments	-	283,491
Held in trust for other purposes	<u>1,169,309</u>	<u>-</u>
Total fiduciary net position	<u>\$ 1,169,309</u>	<u>\$ 283,491</u>

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

## TOWN OF HIGHLANDS, NORTH CAROLINA

STATEMENT OF CHANGES IN FIDUCIARY NET POSITION  
FIDUCIARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2021

	<b>Private-Purpose Trust Funds</b>	<b>Custodial Fund</b>
<b>Additions:</b>		
Investment earnings	\$ 204	\$ -
Contributions	67,880	39,290
ABC profit distribution	18,787	-
Miscellaneous	17,795	-
Total additions	<u>104,666</u>	<u>39,290</u>
<b>Deductions:</b>		
Cemetery	41,754	-
Scholarship	54,000	-
Relief expenditures	-	33,027
Total deductions	<u>95,754</u>	<u>33,027</u>
Net increase (decrease) in fiduciary net position	<u>8,912</u>	<u>6,263</u>
<b>Net Position:</b>		
Net position - beginning, as previously reported	1,160,397	-
Prior period adjustment - change in accounting principle	-	277,228
Net position - beginning, as restated	<u>1,160,397</u>	<u>277,228</u>
End of year - June 30	<u>\$ 1,169,309</u>	<u>\$ 283,491</u>

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

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# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

### 1. Summary of Significant Accounting Policies

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

#### A. Reporting Entity

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

#### Component Unit - Town of Highlands ABC Board

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

#### B. Basis of Presentation

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

The Statement of Activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021**

Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Program revenues include: (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

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

The Town reports the following major governmental funds:

### **General Fund**

The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and state-shared revenues. The primary expenditures are for public safety, street maintenance and construction, and general governmental services.

### **Capital Projects Fund**

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

### **Fire Department Fund**

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

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021**

The Town reports all its enterprise funds as major.

### **Enterprise Funds**

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

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

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

The Town reports the following fiduciary fund types:

### **Private-Purpose Trust Funds**

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

### **Custodial Fund**

Custodial funds are used to report fiduciary activities that are not required to be reported in pension (and other employee benefit) trust funds, investment trust funds, or private-purpose trust funds. Custodial funds are used to account for assets the Town holds on behalf of others that meet certain criteria. The Town maintains one custodial fund for Fireman's Relief.

## **C. Measurement Focus and Basis of Accounting**

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

*Government-Wide, Proprietary, and Fiduciary Fund Financial Statements.* The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021**

(or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

Sales taxes collected and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the state at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Macon County and then remitted to and distributed by the state. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not



# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021**

measurable until received in cash. All sales taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

### **D. Budgetary Data**

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

Expenditures may not legally exceed appropriations at the department level for all annually budgeted funds and at the project level for multi-year funds. The Town Manager is authorized to transfer any amount within a department without amendment. Any revisions that alter the total expenditures of a department or fund require approval of the Town Commissioners. During the year, several amendments to the original budget were necessary, the effects of which were material. The budget ordinance must be adopted by July 1 of the fiscal year, or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

#### **Deposits and Investments**

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

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

The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, an SEC-registered (2a-7) government money market 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.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

### Cash and Cash Equivalents

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

### Restricted Cash

Powell Bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S 136-41.1 through 136-41.4. Fiber build-out funds are classified as restricted cash because it can be expended only for the purpose of which the unspent debt proceeds were intended for in the project. Unspent debt proceeds for the fire loan are restricted as they are for the project for which the debt was issued. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected.

#### Governmental Activities:

##### General Fund:

Powell Bill	\$ 122,982
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##### Capital Project Fund:

Fire loan (unspent debt proceeds)	6,230,810
Fiber build-out (unspent debt proceeds)	<u>583,348</u>
Total governmental activities	<u>6,937,140</u>

#### Business-Type Activities:

##### Water and Sewer Fund:

Customer deposits	4,969
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##### Electric Fund:

Customer deposits	<u>50,990</u>
Total business-type activities	<u>55,959</u>

Total restricted cash	<u><u>\$ 6,993,099</u></u>
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### Ad Valorem Taxes Receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2020.

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021**

### **Allowances for Doubtful Accounts**

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

### **Inventory and Prepaid Items**

The inventories of the Town are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists of expendable supplies that are recorded as expenditures as used rather than when purchased.

The inventories of the Town's enterprise funds consist of materials and supplies held for subsequent use. The cost of these inventories is expensed when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

### **Capital Assets**

The Town has adopted a minimum capitalization threshold of \$5,000. Capital assets are recorded at original cost. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and stormwater system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives is not capitalized.

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

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

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021**

### **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 one item that meets this criterion for this category pension 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 two items that meet the criteria for this category – property taxes receivable and pension deferrals.

### **Long-Term Obligations**

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

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

### **Compensated Absences**

The vacation policy of the Town allows for the accumulation of vacation leave, up to 240 hours per employee as well as the accumulation of comp time, up to 80 hours per employee. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary related payments are recorded as the leave is earned on a first-in, first-out basis. The portion of time estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021**

### **Net Position/Fund Balances**

#### **Net Position**

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

#### **Fund Balances**

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

The governmental fund types classify fund balances as follows:

#### **Non-Spendable Fund Balance**

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

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

#### **Restricted Fund Balance**

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

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

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

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

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

Restricted net position on Exhibit A varies from restricted fund balance on Exhibit C by the amount of unspent debt proceeds of \$6,814,158, as of June 30, 2021.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

### Committed Fund Balance

The committed fund balance classification includes amounts that can be used only for the specific purposes imposed by a formal action of the Town's highest level of decision-making authority. The Town Council can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

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

### Assigned Fund Balance

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

### Unassigned Fund Balance

Unassigned fund balance represents the portion of fund balance that has not been assigned to another fund or is not restricted, committed, or assigned to specific purposes or other funds.

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

The Town has not officially adopted a fund balance policy.

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

Total fund balance - General Fund	\$ 4,403,836
<b>Less:</b>	
Inventory	25,157
Stabilization by state statute	395,439
Total available fund balance	<u>\$ 3,983,240</u>

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021**

### **Defined Benefit Cost-Sharing Plans**

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

### **F. Estimates**

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

## **2. Detail Notes On All Funds**

### **A. Assets**

#### **Deposits**

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or with the escrow agent. Because of the inability to measure the exact amount of collateral pledged for the Town under the Pooling Method, the potential exists for under collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

At June 30, 2021, the Town's deposits had a carrying amount of \$11,142,289 and a bank balance of \$11,423,202. Of the bank balance, \$500,000 was covered by federal depository insurance, and \$10,923,202 was covered by collateral held under the Pooling Method. The Town also has cash on hand of \$300 at June 30, 2021.

### Investments

At June 30, 2021 the Town of Highlands had \$12,786,265 invested with the North Carolina Capital Management Trust's Government Portfolio, which carried a credit rating of AAAM by Standard and Poor's and AAA-mf by Moody's Investors Service. The Town has no policy regarding credit risk.

### Receivables - Allowances for Doubtful Accounts

The receivables shown in Exhibit A at June 30, 2021 were as follows:

	<u>Accounts</u>	<u>Taxes</u>	<u>Due From Other Governments</u>	<u>Total</u>
<b>Governmental Activities:</b>				
General Fund	\$ 12,270	\$ 30,493	\$ 384,301	\$ 427,064
Special revenue funds	-	-	10,317	10,317
Allowance for doubtful accounts	<u>(1,132)</u>	<u>(9,000)</u>	-	<u>(10,132)</u>
Total governmental activities	<u>\$ 11,138</u>	<u>\$ 21,493</u>	<u>\$ 394,618</u>	<u>\$ 427,249</u>
<b>Business-Type Activities:</b>				
Water and Sewer Fund	\$ 362,293	\$ -	\$ 57,939	\$ 420,232
Electric Fund	749,167	-	29,796	778,963
Sanitation Fund	<u>97,901</u>	<u>-</u>	<u>11,665</u>	<u>109,566</u>
Total receivables	1,209,361	-	99,400	1,308,761
Allowance for doubtful accounts	<u>(66,069)</u>	<u>-</u>	<u>-</u>	<u>(66,069)</u>
Total business-type activities	<u>\$ 1,143,292</u>	<u>\$ -</u>	<u>\$ 99,400</u>	<u>\$ 1,242,692</u>

Due from other governments consisted of the following:

### Governmental Activities:

Local option sales tax	\$ 238,939
Franchise tax	66,245
Sales tax reimbursement	88,839
Other taxes	<u>595</u>
Total	394,618

### Business-Type Activities:

Sales tax reimbursement	<u>99,400</u>
Total	<u>\$ 494,018</u>



# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

### Governmental Capital Assets

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

	<b>Balance July 1, 2020</b>	<b>Increases</b>	<b>Decreases</b>	<b>Balance June 30, 2021</b>
<b>By Asset Type:</b>				
<b>Non-Depreciable Assets:</b>				
Land	\$ 1,535,281	\$ -	\$ -	\$ 1,535,281
Construction in progress	2,992,501	1,968,093	-	4,960,594
Total non-depreciable assets	<u>4,527,782</u>	<u>1,968,093</u>	<u>-</u>	<u>6,495,875</u>
<b>Depreciable Assets:</b>				
Building and improvements	8,124,680	370,425	-	8,495,105
Equipment and vehicles	6,226,523	187,159	(38,586)	6,375,096
Recreation facilities	5,819,047	-	-	5,819,047
Infrastructure	3,420,503	842,708	-	4,263,211
Total depreciable assets	<u>23,590,753</u>	<u>1,400,292</u>	<u>(38,586)</u>	<u>24,952,459</u>
<b>Less Accumulated Depreciation:</b>				
Buildings and improvements	3,065,230	177,860	-	3,243,090
Equipment and vehicles	3,347,646	330,398	(18,971)	3,659,073
Recreation facilities	3,473,745	134,391	-	3,608,136
Infrastructure	904,416	193,879	-	1,098,295
Total accumulated depreciation	<u>10,791,037</u>	<u>\$ 836,528</u>	<u>\$ (18,971)</u>	<u>11,608,594</u>
Total depreciable assets, net	<u>12,799,716</u>			<u>13,343,865</u>
Capital assets, net	<u>\$ 17,327,498</u>			<u>\$ 19,839,740</u>

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021**

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

### **Governmental Activities:**

General government	\$ 146,865
Public safety	157,459
Transportation	260,787
Culture and recreation	<u>271,417</u>
Total	<u>\$ 836,528</u>

### **Business-Type Activities:**

Water and Sewer Fund	\$ 921,481
Electric Fund	135,823
Sanitation Fund	<u>49,722</u>
Total	<u>\$ 1,107,026</u>

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

### Proprietary Capital Assets

The capital assets of the proprietary funds of the Town at June 30, 2021 are as follows:

	<u>July 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>June 30, 2021</u>
<b>Business-Type Activities:</b>					
<b>Water and Sewer Fund:</b>					
<b>Non-Depreciable Capital Assets:</b>					
Land	\$ 399,040	\$ -	\$ -	\$ -	\$ 399,040
Construction in progress	<u>1,793,816</u>	<u>73,481</u>	<u>-</u>	<u>(1,867,297)</u>	<u>-</u>
Total non-depreciable capital assets	<u>2,192,856</u>	<u>73,481</u>	<u>-</u>	<u>(1,867,297)</u>	<u>399,040</u>
<b>Depreciable Capital Assets:</b>					
Plant and distribution systems	35,976,834	245,632	-	1,867,297	38,089,763
Equipment and vehicles	<u>1,491,555</u>	<u>56,153</u>	<u>-</u>	<u>-</u>	<u>1,547,708</u>
Total depreciable capital assets	<u>37,468,389</u>	<u>301,785</u>	<u>-</u>	<u>1,867,297</u>	<u>39,637,471</u>
<b>Less Accumulated Depreciation:</b>					
Plant and distribution systems	11,811,133	838,991	-	-	12,650,124
Equipment and vehicles	<u>985,295</u>	<u>82,490</u>	<u>-</u>	<u>-</u>	<u>1,067,785</u>
Total accumulated depreciation	<u>12,796,428</u>	<u>\$ 921,481</u>	<u>\$ -</u>	<u>\$ -</u>	<u>13,717,909</u>
Total depreciable capital assets, net	<u>24,671,961</u>				<u>25,919,562</u>
Water and sewer capital assets, net	<u>26,864,817</u>				<u>26,318,602</u>
<b>Electric Fund:</b>					
<b>Depreciable Capital Assets:</b>					
Plant and distribution systems	2,215,136	\$ -	\$ -	\$ -	2,215,136
Equipment and vehicles	<u>1,657,377</u>	<u>134,664</u>	<u>(33,182)</u>	<u>-</u>	<u>1,758,859</u>
Total depreciable capital assets	<u>3,872,513</u>	<u>134,664</u>	<u>(33,182)</u>	<u>-</u>	<u>3,973,995</u>
<b>Less Accumulated Depreciation:</b>					
Plant and distribution systems	1,314,412	57,836	-	-	1,372,248
Equipment and vehicles	<u>1,331,511</u>	<u>77,987</u>	<u>(33,182)</u>	<u>-</u>	<u>1,376,316</u>
Total accumulated depreciation	<u>2,645,923</u>	<u>\$ 135,823</u>	<u>\$ (33,182)</u>	<u>\$ -</u>	<u>2,748,564</u>
Electric capital assets, net	<u>1,226,590</u>				<u>1,225,431</u>

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

	<u>July 1, 2020</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2021</u>
<b>Sanitation Fund:</b>				
<b>Depreciable Capital Assets:</b>				
Equipment and vehicles	<u>522,851</u>	<u>\$ 174,006</u>	<u>\$ -</u>	<u>696,857</u>
Total depreciable capital assets	<u>522,851</u>	<u>174,006</u>	<u>-</u>	<u>696,857</u>
<b>Less Accumulated Depreciation:</b>				
Equipment and vehicles	<u>317,444</u>	<u>49,722</u>	<u>-</u>	<u>367,166</u>
Total accumulated depreciation	<u>317,444</u>	<u>\$ 49,722</u>	<u>\$ -</u>	<u>367,166</u>
Sanitation capital assets, net	<u>205,407</u>			<u>329,691</u>
 Business-type activities				
capital assets, net	<u>\$ 28,296,814</u>			<u>\$ 27,873,724</u>

### Net Investment in Capital Assets

The total net investment in capital assets at June 30, 2021 is composed of the following elements:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital assets	\$ 19,839,740	\$ 27,873,724
Long-term debt	(12,486,666)	(979,947)
Add: unspent debt proceeds	<u>6,814,158</u>	<u>-</u>
Net investment in capital assets	<u>\$ 14,167,232</u>	<u>\$ 26,893,777</u>

### Construction Commitments

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

<u>Project</u>	<u>Remaining Commitment</u>
Fiber Build Out	\$735,589
New Fire Department Construction	\$6,532,959
Moorewood Waterline Project	\$670,000
High Service Pump Replacement	\$600,000

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

### B. Liabilities

#### Payables

Payables at Exhibit A at June 30, 2021 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
<b>Governmental Activities:</b>			
General Fund	\$ 88,430	\$ 104,784	\$ 193,214
Special revenue funds	4,344	5,767	10,111
Capital project funds	302,150	-	302,150
Total governmental activities	<u>\$ 394,924</u>	<u>\$ 110,551</u>	<u>\$ 505,475</u>
<b>Business-Type Activities:</b>			
Water and Sewer Fund	\$ 19,986	\$ 77,350	\$ 97,336
Electric Fund	45,776	40,039	85,815
Sanitation Fund	21,132	19,217	40,349
Total business-type activities	<u>\$ 86,894</u>	<u>\$ 136,606</u>	<u>\$ 223,500</u>

#### Pension Plan and Post-Employment Obligations

##### Local Government Employees' Retirement System

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

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

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

**Contributions.** Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town contractually required contribution rate for the year ended June 30, 2021, was 10.9% of compensation for law enforcement officers and 10.15% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town were \$370,483 for the year ended June 30, 2021.

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

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

At June 30, 2021, the Town reported a liability of \$1,661,285 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2020 (measurement date), the Town's proportion was 0.046%, which is an increase of 0.00074% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2021, the Town recognized pension expense of \$587,115. At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 209,791	\$ -
Changes of assumptions	123,632	-
Net difference between projected and actual earnings on pension plan investments	233,782	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	54,082	16,928
Town contributions subsequent to the measurement date	370,483	-
Total	<u>\$ 991,770</u>	<u>\$ 16,928</u>

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

The \$370,483 reported as deferred outflows of resources related to pensions resulting from the Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ending June 30, 2022. Other amounts reported as deferred inflows and outflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending</b>	
<b>June 30</b>	<b>Total</b>
2022	\$ 175,576
2023	229,045
2024	130,549
2025	69,189
2026	-
Thereafter	-
Total	<u>\$ 604,359</u>

**Actuarial Assumptions.** The total pension liability in the December 31, 2019 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 productivity factor
Investment rate of return	7.0 percent, net of pension plan investment expense, including inflation

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

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

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



## TOWN OF HIGHLANDS, NORTH CAROLINA

### NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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, 2020 are summarized in the following table:

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

The information above is based on 30-year expectations developed with the consulting actuary for the 2020 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

*Sensitivity of the Town's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate.* The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.00%) or 1-percentage-point higher (8.00%) than the current rate:

	<b>1% Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Town's proportionate share of the net pension liability (asset)	<u>\$ 3,370,568</u>	<u>\$ 1,661,285</u>	<u>\$ 240,752</u>

**Pension Plan Fiduciary Net Position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued Annual Comprehensive Financial Report for the State of North Carolina.

### Law Enforcement Officers' Special Separation Allowance

#### Plan Description

The Town of Highlands administers a public employee retirement system (the *Separation Allowance*), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of credible service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. A separate report was not issued for the plan.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2019, membership consisted of:

Retirees receiving benefits	3
Active plan members	<u>13</u>
Total	<u>16</u>

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

### Summary of Significant Accounting Policies

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

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

### Actuarial Assumptions

The entry age normal actuarial cost method was used in the December 31, 2019 valuation. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.25 to 7.75 percent, including inflation and real wage growth
Discount rate	1.93 percent

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an experience study completed by the Actuary for the Local Governmental Employees' Retirement System for the five-year period ending December 31, 2019.

**Mortality Assumption:** All mortality rates use Pub-2010 amount-weighted tables.

**Mortality Projection:** All mortality rates are projected from 2010 using generational improvement with Scale MP-2019.

**Deaths After Retirement (Healthy):** Mortality rates are based on the Safety Mortality Table for Retirees. Rates for all members are multiplied by 97% and Set Forward by 1 year.

**Deaths After Retirement (Disabled Members at Retirement):** Mortality rates are based on the Non-Safety Mortality Table for Disabled Retirees. Rates are Set Back 3 years for all ages.

**Deaths After Retirement (Survivors of Deceased Members):** Mortality rates are based on the Below-median Teachers Mortality Table for Contingent Survivors. Rates for male members are Set Forward 3 years. Rates for female members are Set Forward 1 year. Because the contingent survivor tables have no rates prior to age 45, the Below-median Teachers Mortality Table for Employees is used for ages less than 45.

**Deaths Prior to Retirement:** Mortality rates are based on the Safety Mortality Table for Employees.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

### 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 \$37,024 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, 2021, the Town reported a total pension liability of \$588,871. The total pension liability was measured as of December 31, 2020 based on a December 31, 2019 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2020 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2021, the Town recognized pension expense of \$80,946.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 71,919	\$ 1,330
Changes of assumptions	114,596	7,590
Town town benefit payments and plan administrative expense made subsequent to the measurement date	18,512	-
Total	<u>\$ 205,027</u>	<u>\$ 8,920</u>

\$18,512 reported as deferred outflows of resources related to pensions resulting from benefit payments made subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending June 30</b>	<b>Amount</b>
2022	\$ 47,775
2023	48,416
2024	41,966
2025	28,152
2026	11,286
Thereafter	-
Total	<u>\$ 177,595</u>

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

*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 1.93 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (0.93 percent) or 1-percentage-point higher (2.93 percent) than the current rate:

	<b>1% Decrease (0.93%)</b>	<b>Discount Rate (1.93%)</b>	<b>1% Increase (2.93%)</b>
Total pension liability	\$ 632,637	\$ 588,871	\$ 548,915

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

	<b>2021</b>
Beginning balance	\$ 464,222
Service cost	18,252
Interest on the total pension liability	14,530
Differences between expected and actual experience	4,870
Changes of assumptions or other inputs	124,021
Benefit payments	<u>(37,024)</u>
Ending balance of the total pension liability	<u>\$ 588,871</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, 2019 valuation were based on the results of an actuarial experience study completed by the Actuary for the Local Government Employees' Retirement System for the five-year period ended December 31, 2019.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	\$ 587,115	\$ 80,946	\$ 668,061
Pension liability	1,661,285	588,871	2,250,156
Proportion of the net pension liability	0.046%	NA	-

At June 30, 2021, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
<b>Deferred Outflows of Resources:</b>			
Differences between expected and actual experience	\$ 209,791	\$ 71,919	\$ 281,710
Changes of assumptions	123,632	114,596	238,228
Net difference between projected and actual earnings on pension plan investments	233,782	-	233,782
Changes in proportion and differences between Town contributions and proportionate share of contributions	54,082	-	54,082
Town contributions (LGERS) and benefit payments and administration costs (LEOSSA) subsequent to the measurement date	370,483	18,512	388,995
	<u>\$ 991,770</u>	<u>\$ 205,027</u>	<u>\$ 1,196,797</u>

### Deferred Inflows of Resources:

Differences between expected and actual experience	\$ -	\$ 1,330	\$ 1,330
Changes of assumptions	-	7,590	7,590
Changes in proportion and differences between Town contributions and proportionate share of contributions	16,928	-	16,928
	<u>\$ 16,928</u>	<u>\$ 8,920</u>	<u>\$ 25,848</u>

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021**

### **Supplemental Retirement Income Plan for Law Enforcement Officers**

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

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

The Town made contributions of \$37,024 for the reporting year. No amounts were forfeited.

### **Other Employment Benefits**

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

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

### Deferred Outflows and Inflows of Resources

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

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year (LGERS)	
Contributions to pension plan in current fiscal year (LGERS)	\$ 370,483
Benefit payments made and administration expenses for LEOSSA made subsequent to the measurement date	18,512
Differences between expected and actual experience (LGERS)	209,791
Differences between expected and actual experience (LEOSSA)	71,919
Changes of assumptions (LGERS)	123,632
Changes of assumptions (LEOSSA)	114,596
Net difference between projected and actual experience (LGERS)	233,782
Changes in proportion and differences between employer contributions and proportionate share (LGERS)	54,082
	<u>\$ 1,196,797</u>

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

Taxes receivable, net (General Fund)	\$ 21,493
Changes in assumptions (LEOSSA)	7,590
Differences between expected and actual experience (LEOSSA)	1,330
Changes in proportion and differences between employer contributions and proportionate share (LGERS)	16,928
	<u>\$ 47,341</u>

### Risk Management

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



# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021**

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

The Town does not carry flood insurance.

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

### **Claims, Judgments and Contingent Liabilities**

At June 30, 2021, the Town was a defendant to various lawsuits. Management believes that the ultimate outcome of these legal matters will not have a material adverse effect on the financial position of the Town.

### **Long-Term Obligations**

#### **Governmental Activities:**

Installment purchase contracts at June 30, 2021 are comprised of the following:

Installment purchase contract for the fiber build-out of the Town of Highlands. The note is payable in annual payments beginning on March 13, 2020 with a fixed principal of \$306,667. Interest rate of 3.66%. Final payment is due March 13, 2034. \$ 3,986,666

Installment purchase contract for the construction of a fire department. The note is payable in annual payments beginning on January 8, 2022 with a fixed principal of \$425,000. Interest rate of 2.75%. Final payment is due January 8, 2041. 8,500,000

Total long-term obligations - governmental activities \$ 12,486,666

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

The Town's outstanding notes from direct placements related to governmental activities of \$3,986,666 are secured with the equipment. The Town's outstanding notes from direct borrowings related to governmental activities of \$3,986,666 contain provisions that an event of default would result in (1) the timing of repayment of outstanding amounts become immediately due; (2) enforce the Town's performance of the applicable covenants of the agreement or recover for the breach thereof; (3) pay over any balance remaining in the Project Fund to be applied against outstanding required payments in any manner the bank may reasonably deem appropriate; and (3) avail itself of all available remedies under the agreement, including execution on personal property and recovery of attorneys' fees and other expenses.

The Town's outstanding notes from direct placements related to governmental activities of \$8,500,000 are secured with the building. The Town's outstanding notes from direct borrowings related to governmental activities of \$8,500,000 contain provisions that an event of default would result in (1) the timing of repayment of outstanding amounts become immediately due; (2) enforce the Town's performance of the applicable covenants of the agreement or recover for the breach thereof; (3) pay over any balance remaining in the Project Fund to be applied against outstanding required payments in any manner the bank may reasonably deem appropriate; and (3) avail itself of all available remedies under the agreement, including execution on personal property and recovery of attorneys' fees and other expenses.

Annual debt service requirements to maturity are as follows:

<b>Year Ending</b> <b>June 30</b>	<b>Governmental Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2022	\$ 731,667	\$ 379,662
2023	731,667	356,750
2024	731,667	333,839
2025	731,667	310,928
2026	731,667	288,016
2027-2031	3,658,335	1,096,407
2032-2036	3,044,996	534,844
2037-2041	2,125,000	701,213
Total	<u>\$ 12,486,666</u>	<u>\$ 4,001,659</u>

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

### Business-Type Activities:

#### Water and Sewer Fund:

Federal revolving loan for the construction of Mirror Lake sewer improvements. The loan has a maximum amount of \$1,395,072.

The loan is payable in 20 annual installments beginning at the time the project is completed. The loan is interest free.

\$ 512,703

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

156,978

Federal revolving loan for the construction of Lake Sequoyah intake improvements. The loan has a maximum amount of \$413,690.

The loan is payable in 20 annual installments beginning at the time the project is completed. The loan is interest free.

310,266

Total installment debt - Water and Sewer Fund

\$ 979,947

The Town's outstanding notes from direct borrowings related to the Water and Sewer Fund of \$979,947 contain a provision that in an event of default, may require the unit to prepay the note in full or may result in the state withholding any other monies due to the unit of local government. Notes are secured and payable solely from system revenues or other available funds and not secured by a pledge of full faith and credit.

Annual debt service requirements to maturity are as follows:

Year Ending June 30	Business-Type Activities	
	Principal	Interest
2022	\$ 93,350	\$ -
2023	93,350	-
2024	93,350	-
2025	93,350	-
2026	93,350	-
2027-2031	409,777	-
2032-2036	<u>103,420</u>	<u>-</u>
Total	<u><u>\$ 979,947</u></u>	<u><u>\$ -</u></u>

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

### Electric Fund:

Long-term liability with Duke Energy in relation to Coal Ash Settlement.  
The amount is payable in monthly payments ranging from \$13,505 - \$25,942  
beginning in fiscal year 2018 and ending fiscal year 2028. No interest.

\$ 1,356,119

Annual debt service requirements to maturity are as follows:

<b>Year Ending</b> <b>June 30</b>	<b>Business-Type Activities</b>	
	<b>Principal</b>	<b>Interest</b>
2022	\$ 170,000	\$ -
2023	170,000	-
2024	170,000	-
2025	170,000	-
2026	170,000	-
2027-2028	506,119	-
Total	<u>\$ 1,356,119</u>	<u>\$ -</u>

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

### Changes in General Long-Term Obligations

	<u>July 1, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2021</u>	<u>Due in Less than One Year</u>
<b>Governmental Activities:</b>					
Notes from direct placements	\$ 4,354,415	\$ 8,500,000	\$ 367,749	\$ 12,486,666	\$ 731,667
Total pension liability (LEOSSA)	464,222	124,649	-	588,871	-
Net pension liability (LGRS)	747,386	247,133	-	994,519	-
Accrued vacation	144,434	72,217	71,615	145,036	145,036
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total governmental activities	<u>\$ 5,710,457</u>	<u>\$ 8,943,999</u>	<u>\$ 439,364</u>	<u>\$ 14,215,092</u>	<u>\$ 876,703</u>
<b>Business-Type Activities:</b>					
Water and Sewer Fund:					
Notes from direct placements and direct borrowings	\$ 1,073,297	\$ -	\$ 93,350	\$ 979,947	\$ 93,350
Net pension liability (LGRS)	214,651	70,021	-	284,672	-
Accrued vacation	54,757	27,378	27,246	54,889	54,889
Total Water and Sewer Fund	<u>1,342,705</u>	<u>97,399</u>	<u>120,596</u>	<u>1,319,508</u>	<u>148,239</u>
Electric Fund:					
Coal Ash settlement	1,439,476	-	83,357	1,356,119	170,000
Net pension liability (LGRS)	200,255	61,783	-	262,038	-
Accrued vacation	64,343	32,172	25,848	70,667	70,667
Total Electric Fund	<u>1,704,074</u>	<u>93,955</u>	<u>109,205</u>	<u>1,688,824</u>	<u>240,667</u>
Sanitation Fund:					
Net pension liability (LGRS)	87,105	32,951	-	120,056	-
Accrued vacation	19,986	9,993	13,419	16,560	16,560
Total Sanitation Fund	<u>107,091</u>	<u>42,944</u>	<u>13,419</u>	<u>136,616</u>	<u>16,560</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total business-type activities	<u>\$ 3,153,870</u>	<u>\$ 234,298</u>	<u>\$ 243,220</u>	<u>\$ 3,144,948</u>	<u>\$ 405,466</u>

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

At June 30, 2021, the Town of Highlands had a legal debt margin of approximately \$134,245,000.

# TOWN OF HIGHLANDS, NORTH CAROLINA

## NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021

### C. Interfund Balances and Activity

#### Transfers To/From Other Funds

Transfers to/from other funds for the year ended June 30, 2021 are as follows:

Fund	To	From	Purpose
<b>Governmental Activities:</b>			
<b>General Fund:</b>			
Capital Project Fund	\$ 460,812	\$ -	To record debt payment
Water & Sewer Capital Project Fund	15,698	-	To record General Fund debt payments
<b>Capital Project Fund:</b>			
General Fund	-	460,812	To record debt payment
<b>Water &amp; Sewer Fund:</b>			
Water & Sewer and Capital Project Fund	77,652	-	Capital expenditures
<b>Water &amp; Sewer and Capital Project Fund:</b>			
Water & Sewer Fund	-	77,652	Capital expenditures
General Fund	-	15,698	To record General Fund debt payments
Electric Fund	-	124,072	Capital expenditures
<b>Sanitation Fund:</b>			
Electric Fund	-	230,150	Capital expenditure and operating expenditures
<b>Electric Fund:</b>			
Sanitation Fund	230,150	-	Capital expenditure and operating expenditures
Water & Sewer Capital Project Fund	124,072	-	Capital expenditures
Total	<u>\$ 908,384</u>	<u>\$ 908,384</u>	

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

### 3. Other Matters

#### Related Party Transactions

The Town and its discretely presented component unit engaged in the following transactions during the year ended June 30, 2021:

<b>Town of Highlands ABC Board:</b>	
Payments to the Town for profit distributions	\$ 41,975
Payments to the Town for scholarship funds	18,787
Payments to the Town for law enforcement	<u>5,932</u>
Total	<u>\$ 66,694</u>

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021**

### **4. Summary Disclosures of Significant Contingencies**

#### **Federal and State-Assisted Programs**

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

#### **Summary Disclosure of Significant Contingencies**

During the fiscal year 2020, the World Health Organization declared the spread of Coronavirus Disease (COVID-19) a worldwide pandemic. The COVID-19 pandemic has had significant effects on global markets, supply chains, businesses, and communities. Specific to the Town, COVID-19 is expected to impact various parts of its fiscal year 2021-22 operations and financial results. Management believes the Town is taking appropriate actions to mitigate the negative impact. However, the full impact of COVID-19 is unknown and cannot be reasonably estimated as events associated with the pandemic continue to develop.

### **5. Subsequent Event**

The Town of Highlands was awarded \$312,960 from the Federal American Rescue Plan (ARP). After year end, the Town received \$156,480. The remaining amount of \$156,480 is expected to be received within the next 12 months.

### **6. Change in Accounting Principle**

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 84, *Fiduciary Activities*, effective July 1, 2020. The statement establishes criteria for identifying fiduciary activities of all state and local governments and provides guidance on how to report fiduciary activities within the financial statements. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. The statement also describes four fiduciary funds that should be reported if criteria outlined in the statement are met: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. The use of agency funds was eliminated. The statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources.

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2021**

As part of implementing the statement, the Town performed a comprehensive review of its fiduciary relationships and applied the criteria within the guidance. As a result, fund balance and net position were restated as follows:

<b>Fiduciary Net Position - Custodial Fund - Increase (Decrease)</b>	
	Cash related to the fireman's relief funding which the Town collects on behalf of the fire department's beneficiaries in need were reclassified out of the Agency Fund into a newly created Fireman's Relief Custodial Fund. The portion of liabilities and receivables at the beginning of the year were restated
<u>\$ 277,228</u>	as custodial net position.



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

	<b>Law Enforcement Officers' Special Separation Allowance</b>				
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 464,222	\$ 409,918	\$ 332,528	\$ 317,506	\$ 311,162
Service cost	18,252	16,374	17,787	15,332	15,703
Interest on the total pension liability	14,530	14,405	10,087	11,742	10,868
Differences between expected and actual experience in the measurement of the total pension liability	4,870	40,379	89,762	(4,234)	-
Changes of assumptions or other inputs	124,021	11,492	(13,635)	18,793	(6,755)
Benefit payments	(37,024)	(28,346)	(26,611)	(26,611)	(13,472)
Ending balance of the total pension liability	<u>\$ 588,871</u>	<u>\$ 464,222</u>	<u>\$ 409,918</u>	<u>\$ 332,528</u>	<u>\$ 317,506</u>

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

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**TOWN OF HIGHLANDS, NORTH CAROLINA**

**SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF  
COVERED-EMPLOYEE PAYROLL  
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
LAST FIVE FISCAL YEARS**

	<b>Law Enforcement Officers' Special Separation Allowance</b>				
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
Total pension liability	\$ 588,871	\$ 464,222	\$ 409,918	\$ 332,528	\$ 317,506
Covered-employee payroll	617,723	592,325	587,715	605,264	586,380
Total pension liability as a percentage of covered-employee payroll	95.33%	78.37%	69.75%	54.94%	54.15%

**Notes to the Schedules:**

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

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

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

	<b>Local Government Employees' Retirement System</b>			
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Town's proportion of the net pension liability (asset) (%)	0.04649%	0.04575%	0.04902%	0.04536%
Town's proportion of the net pension liability (asset) (\$)	\$ 1,661,285	\$ 1,249,397	\$ 1,162,922	\$ 692,975
Town's covered payroll*	\$ 3,570,416	\$ 3,453,004	\$ 3,441,810	\$ 3,127,471
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	46.53%	36.18%	33.79%	22.16%
Plan fiduciary net position as a percentage percentage of the total pension liability **	88.61%	90.86%	91.63%	94.18%

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

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

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

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

	<b>Local Government Employees' Retirement System</b>			
	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Town's proportion of the net pension liability (asset) (%)	0.04802%	0.05021%	0.05159%	0.05050%
Town's proportion of the net pension liability (asset) (\$)	\$ 1,019,145	\$ 225,339	\$ (304,251)	\$ 608,719
Town's covered payroll*	\$ 3,157,944	\$ 2,983,108	\$ 2,905,876	\$ 2,870,974
Town's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	32.27%	7.55%	-10.47%	21.20%
Plan fiduciary net position as a percentage percentage of the total pension liability **	91.47%	98.09%	102.64%	94.35%

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

<b>Local Government Employees' Retirement System</b>				
	<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
Contractually required contribution	\$ 370,483	\$ 322,802	\$ 271,116	\$ 261,215
Contributions in relation to the contractually required contribution	<u>370,483</u>	<u>322,802</u>	<u>271,116</u>	<u>261,215</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered payroll	\$ 3,620,870	\$ 3,570,416	\$ 3,453,004	\$ 3,441,810
Contributions as a percentage of covered payroll	10.23%	9.04%	7.85%	7.59%

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

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

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

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2021  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020**

	<b>2021</b>			<b>2020</b>
	<b>Budget</b>	<b>Actual</b>	<b>Variance Over/Under</b>	<b>Actual</b>
<b>Revenues:</b>				
<b>Ad Valorem Taxes:</b>				
Taxes	\$ 2,819,000	\$ 2,934,410	\$ 115,410	\$ 2,883,028
Total ad valorem taxes	<u>2,819,000</u>	<u>2,934,410</u>	<u>115,410</u>	<u>2,883,028</u>
<b>Other Taxes and Licenses:</b>				
Privilege licenses	-	1,190	1,190	850
Local option sales tax	<u>1,023,486</u>	<u>1,340,834</u>	<u>317,348</u>	<u>1,201,381</u>
Total other taxes and licenses	<u>1,023,486</u>	<u>1,342,024</u>	<u>318,538</u>	<u>1,202,231</u>
<b>Unrestricted Intergovernmental Revenues:</b>				
Franchise tax	250,000	245,904	(4,096)	259,980
ABC profit distribution	<u>20,000</u>	<u>41,975</u>	<u>21,975</u>	<u>42,920</u>
Total unrestricted intergovernmental revenues	<u>270,000</u>	<u>287,879</u>	<u>17,879</u>	<u>302,900</u>
<b>Restricted Intergovernmental Revenues:</b>				
Macon County recreation	550,000	550,000	-	550,000
Macon County Police SRO	50,000	50,000	-	50,000
Powell Bill allocation	50,200	49,315	(885)	54,861
Other grants	214,783	214,783	-	-
ABC profits for law enforcement	<u>2,500</u>	<u>5,932</u>	<u>3,432</u>	<u>5,870</u>
Total restricted intergovernmental revenues	<u>867,483</u>	<u>870,030</u>	<u>2,547</u>	<u>660,731</u>
<b>Permits and Fees:</b>				
Zoning permits	27,000	86,891	59,891	30,874
Antenna fees	<u>25,000</u>	<u>29,698</u>	<u>4,698</u>	<u>35,998</u>
Total permits and fees	<u>52,000</u>	<u>116,589</u>	<u>64,589</u>	<u>66,872</u>
<b>Sales and Services:</b>				
Recreation department fees	89,250	114,862	25,612	117,002
Fiber charges	112,200	247,780	135,580	263,856
Court costs and fees	-	203	203	233
Total sales and services	<u>201,450</u>	<u>362,845</u>	<u>161,395</u>	<u>381,091</u>
<b>Investment Earnings</b>	<u>20,002</u>	<u>939</u>	<u>(19,063)</u>	<u>63,889</u>
<b>Contributions</b>	<u>34,500</u>	<u>37,750</u>	<u>3,250</u>	<u>240,803</u>



**TOWN OF HIGHLANDS, NORTH CAROLINA**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2021  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020**

	<b>2021</b>			<b>2020</b>
	<b>Budget</b>	<b>Actual</b>	<b>Variance Over/Under</b>	<b>Actual</b>
<b>Miscellaneous:</b>				
Administrative costs allocated	133,268	133,268	-	133,268
Hospital insurance reimbursement	-	4,468	4,468	4,218
Other	272,639	282,449	9,810	150,193
Total miscellaneous	405,907	420,185	14,278	287,679
 Total revenues	 5,693,828	 6,372,651	 678,823	 6,089,224
 <b>Expenditures:</b>				
<b>General Government:</b>				
<b>Governing Body and Administration:</b>				
Salaries and employee benefits	705,210	685,931	19,279	673,578
Capital outlay	10,000	9,500	500	8,810
Operating expenses	329,750	279,273	50,477	287,086
Total governing body	1,044,960	974,704	70,256	969,474
 <b>Planning and Zoning Department:</b>				
Salaries and employee benefits	64,150	61,197	2,953	58,803
Capital outlay	100,000	89,377	10,623	-
Operating expenses	10,800	4,607	6,193	3,229
Total planning and zoning	174,950	155,181	19,769	62,032
 <b>Public Buildings:</b>				
Salaries and employee benefits	31,200	27,034	4,166	23,091
Capital outlay	-	32,814	(32,814)	91,586
Operating expenses	89,700	50,739	38,961	59,721
Total public buildings	120,900	110,587	10,313	174,398
 <b>MIS/GIS:</b>				
Salaries and employee benefits	481,000	458,513	22,487	408,759
Capital outlay	38,000	35,087	2,913	58,234
Operating expenses	291,450	177,128	114,322	197,630
Total MIS/GIS	810,450	670,728	139,722	664,623
 Total general government	 2,151,260	 1,911,200	 240,060	 1,870,527
 <b>Public Safety:</b>				
<b>Police:</b>				
Salaries and employee benefits	1,162,650	1,022,448	140,202	1,030,188
Capital outlay	78,000	74,465	3,535	45,086
Operating expenses	336,200	262,625	73,575	300,905
Total police	1,576,850	1,359,538	217,312	1,376,179
 Total public safety	 1,576,850	 1,359,538	 217,312	 1,376,179

**TOWN OF HIGHLANDS, NORTH CAROLINA**

**GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2021  
WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020**

	<u>2021</u>			<u>2020</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
<b>Transportation:</b>				
<b>Streets and Highways:</b>				
Salaries and employee benefits	376,650	351,414	25,236	318,798
Capital outlay	703,500	602,751	100,749	663,646
Operating expenses	411,350	310,332	101,018	343,314
Total transportation	<u>1,491,500</u>	<u>1,264,497</u>	<u>227,003</u>	<u>1,325,758</u>
<b>Culture and Recreation:</b>				
<b>Recreation and Civic Center:</b>				
Salaries and employee benefits	599,500	439,989	159,511	423,592
Capital outlay	371,128	367,833	3,295	136,911
Operating expenses	418,200	287,026	131,174	329,665
Total culture and recreation	<u>1,388,828</u>	<u>1,094,848</u>	<u>293,980</u>	<u>890,168</u>
<b>Debt Service:</b>				
Principal	-	-	-	61,082
Interest	62,000	62,489	(489)	3,282
Total debt service	<u>62,000</u>	<u>62,489</u>	<u>(489)</u>	<u>64,364</u>
Total expenditures	<u>6,670,438</u>	<u>5,692,572</u>	<u>977,866</u>	<u>5,526,996</u>
Revenues over (under) expenditures	<u>(976,610)</u>	<u>680,079</u>	<u>1,656,689</u>	<u>562,228</u>
<b>Other Financing Sources (Uses):</b>				
Transfer to Water and Sewer Capital Project Fund	(15,698)	(15,698)	-	(15,698)
Transfer to Capital Project Fund	(709,567)	(460,812)	248,755	(475,027)
Appropriated fund balance	1,701,875	-	(1,701,875)	-
Total other financing sources (uses)	<u>976,610</u>	<u>(476,510)</u>	<u>(1,453,120)</u>	<u>(490,725)</u>
Net change in fund balance	<u>\$ -</u>	<u>203,569</u>	<u>\$ 203,569</u>	<u>71,503</u>
<b>Fund Balance:</b>				
Beginning of year - July 1		<u>4,200,267</u>		<u>4,128,764</u>
End of year - June 30		<u>\$ 4,403,836</u>		<u>\$ 4,200,267</u>

## TOWN OF HIGHLANDS, NORTH CAROLINA

**CAPITAL PROJECTS FUND - MAJOR  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - BUDGET AND ACTUAL  
FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2021**

		<b>Actual</b>			
	<b>Project Authorization</b>	<b>Prior Years</b>	<b>Current Year</b>	<b>Total to Date</b>	<b>Variance Over/Under</b>
<b>Revenues:</b>					
Investment earnings	\$ 150	\$ 507	\$ 505	\$ 1,012	\$ 862
<b>Expenditures:</b>					
General government:					
Fiber build out	6,540,227	2,842,501	1,198,903	4,041,404	2,498,823
Public safety:					
Fire department	8,500,000	-	2,269,190	2,269,190	6,230,810
<b>Debt Service:</b>					
Principal	679,244	306,667	367,749	674,416	4,828
Interest	261,423	168,360	93,063	261,423	-
Total debt service	940,667	475,027	460,812	935,839	4,828
Total expenditures	15,980,894	3,317,528	3,928,905	7,246,433	8,734,461
Revenues over (under) expenditures	(15,980,744)	(3,317,021)	(3,928,400)	(7,245,421)	8,735,323
<b>Other Financing Sources (Uses):</b>					
Transfers in	1,184,594	673,727	460,812	1,134,539	(50,055)
Long-term debt issued	14,796,150	4,600,000	8,500,000	13,100,000	(1,696,150)
Total other financing sources (uses)	15,980,744	5,273,727	8,960,812	14,234,539	(1,746,205)
Net change in fund balance	\$ -	\$ 1,956,706	5,032,412	\$ 6,989,118	\$ 6,989,118
<b>Fund Balance:</b>					
Beginning of year - July 1			1,956,706		
End of year - June 30			\$ 6,989,118		

## TOWN OF HIGHLANDS, NORTH CAROLINA

## ELECTRIC FUND

## SCHEDULE OF REVENUES AND EXPENDITURES -

## BUDGET AND ACTUAL (NON-GAAP)

## FOR THE YEAR ENDED JUNE 30, 2021

## WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020

	2021			2020
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
Operating revenues:				
Charges for services	\$ 5,525,000	\$ 5,806,616	\$ 281,616	\$ 5,483,927
Coal Ash recovery fees	200,000	203,562	3,562	201,695
Other operating revenues	1,974,600	2,225,817	251,217	490,751
Total operating revenues	7,699,600	8,235,995	536,395	6,176,373
Non-operating revenues:				
Investment earnings	25,000	764	(24,236)	65,223
Total revenues	7,724,600	8,236,759	512,159	6,241,596
<b>Expenditures:</b>				
Current:				
Purchased power	3,500,000	2,740,125	759,875	2,840,875
Operating	1,877,778	1,800,424	77,354	1,649,562
Capital outlay	166,000	134,664	31,336	310,678
Total	5,543,778	4,675,213	868,565	4,801,115
<b>Debt Service:</b>				
Principal	313,000	83,357	229,643	160,524
Total expenditures	5,856,778	4,758,570	1,098,208	4,961,639
Revenues over (under) expenditures	1,867,822	3,478,189	1,610,367	1,279,957
<b>Other Financing Sources (Uses):</b>				
Transfer to Sanitation Fund	(243,750)	(230,150)	13,600	(166,150)
Transfer to Fire Fund	-	-	-	(1,500,000)
Transfer to Water and Sewer Fund	(1,500,000)	-	1,500,000	(388,592)
Transfer to Water and Sewer Capital Projects Fund	(124,072)	(124,072)	-	(1,279,000)
Total other financing sources (uses)	(1,867,822)	(354,222)	1,513,600	(3,333,742)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ 3,123,967	\$ 3,123,967	\$ (2,053,785)

**TOWN OF HIGHLANDS, NORTH CAROLINA****ELECTRIC FUND****SCHEDULE OF REVENUES AND EXPENDITURES -****BUDGET AND ACTUAL (NON-GAAP)****FOR THE YEAR ENDED JUNE 30, 2021****WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020**

	<u>2021</u>			<u>2020</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
<b>Reconciliation from Budgetary Basis</b>				
<b>(Modified Accrual) to Full Accrual:</b>				
Revenues and other financing sources				
over (under) expenditures and other financing uses		\$ 3,123,967		
Change in accrued vacation		(6,324)		
Principal payments		83,357		
Change in deferred outflows - pension		(28,373)		
Change in net pension liability		61,783		
Change in deferred inflows - pension		(915)		
Capital outlay capitalized		134,664		
Depreciation		<u>(135,823)</u>		
Change in net position - GAAP basis		<u>\$ 3,232,336</u>		

## TOWN OF HIGHLANDS, NORTH CAROLINA

## WATER AND SEWER FUND

## SCHEDULE OF REVENUES AND EXPENDITURES

## BUDGET AND ACTUAL (NON-GAAP)

## FOR THE YEAR ENDED JUNE 30, 2021

## WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020

	2021			2020
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
Operating revenues:				
Charges for services	\$ 2,448,100	\$ 2,426,948	\$ (21,152)	\$ 2,350,787
Restricted intergovernmental	-	8,774	8,774	150,000
Other operating revenues	14,900	13,137	(1,763)	109,571
Total operating revenues	<u>2,463,000</u>	<u>2,448,859</u>	<u>(14,141)</u>	<u>2,610,358</u>
Non-operating revenues:				
Investment earnings	2,025	142	(1,883)	9,249
Total non-operating revenues	<u>2,025</u>	<u>142</u>	<u>(1,883)</u>	<u>9,249</u>
Total revenues	<u>2,465,025</u>	<u>2,449,001</u>	<u>(16,024)</u>	<u>2,619,607</u>
<b>Expenditures:</b>				
Current:				
Water purchases and operations	675,350	597,600	77,750	523,875
Sewer treatment and operations	865,295	685,120	180,175	542,102
Water Treatment Plant purchases and operations	947,595	751,094	196,501	879,346
Capital outlay	451,500	301,785	149,715	533,988
Total expenditures	<u>2,939,740</u>	<u>2,335,599</u>	<u>604,141</u>	<u>2,479,311</u>
Revenues over (under) expenditures	<u>(474,715)</u>	<u>113,402</u>	<u>588,117</u>	<u>140,296</u>
<b>Other Financing Sources (Uses):</b>				
Transfers from Electric Fund	-	-	-	388,592
Transfers to capital projects fund - intrafund	(77,652)	(77,652)	-	(77,652)
Appropriated fund balance	552,367	-	(552,367)	-
Total other financing sources (uses)	<u>474,715</u>	<u>(77,652)</u>	<u>(552,367)</u>	<u>310,940</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 35,750</u>	<u>\$ 35,750</u>	<u>\$ 451,236</u>

**TOWN OF HIGHLANDS, NORTH CAROLINA****WATER AND SEWER FUND****SCHEDULE OF REVENUES AND EXPENDITURES****BUDGET AND ACTUAL (NON-GAAP)****FOR THE YEAR ENDED JUNE 30, 2021****WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020**

	<u>2021</u>			<u>2020</u>
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>	<u>Actual</u>
<b>Reconciliation from Budgetary Basis</b>				
<b>(Modified Accrual) to Full Accrual:</b>				
Revenues and other financing sources over		\$ 35,750		
(under) expenditures and other financing uses		(132)		
Change in accrued vacation		301,785		
Capital outlay capitalized		32,157		
Change in deferred outflows - pension		(70,021)		
Change in net pension liability		1,037		
Change in deferred inflows - pension		(921,481)		
Depreciation				
<b>Enterprise Fund Capital Projects:</b>				
Transfers to other funds		139,770		
Intrafund transfers to (from) Capital Projects Fund		<u>77,652</u>		
Change in net position - GAAP basis		<u>\$ (403,483)</u>		

## TOWN OF HIGHLANDS, NORTH CAROLINA

## CONSOLIDATED WATER AND SEWER CAPITAL PROJECTS FUND

## SCHEDULE OF REVENUES AND EXPENDITURES

## BUDGET AND ACTUAL (NON-GAAP)

FROM INCEPTION AND FOR THE YEAR ENDED JUNE 30, 2021

		Actual		
	Project Authorization	Prior Years	Current Year	Total
<b>Expenditures:</b>				
Buckhorn Tank Rebuild Project	\$ 3,573,923	\$ 1,793,816	\$ 73,481	\$ 1,867,297
Sagee Waterline	916,000	589,561	-	589,561
Total project expenditures	<u>4,489,923</u>	<u>2,383,377</u>	<u>73,481</u>	<u>2,456,858</u>
<b>Debt Service:</b>				
Principal	1,492,340	1,274,537	93,350	1,367,887
Interest	20,230	18,597	-	18,597
Total debt service	<u>1,512,570</u>	<u>1,293,134</u>	<u>93,350</u>	<u>1,386,484</u>
Total expenditures	<u>6,002,493</u>	<u>3,676,511</u>	<u>166,831</u>	<u>3,843,342</u>
Revenues over (under) expenditures	<u>(6,002,493)</u>	<u>(3,676,511)</u>	<u>(166,831)</u>	<u>(3,843,342)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers (to) from other funds:				
Water and Sewer Fund	1,036,476	588,551	77,652	666,203
Electric Fund	3,566,388	3,358,463	124,072	3,482,535
General Fund	1,399,629	638,466	15,698	654,164
Total other financing sources (uses)	<u>6,002,493</u>	<u>4,585,480</u>	<u>217,422</u>	<u>4,802,902</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 908,969</u>	<u>\$ 50,591</u>	<u>\$ 959,560</u>



## TOWN OF HIGHLANDS, NORTH CAROLINA

## SANITATION FUND

## SCHEDULE OF REVENUES AND EXPENDITURES

## BUDGET AND ACTUAL (NON-GAAP)

## FOR THE YEAR ENDED JUNE 30, 2021

## WITH COMPARATIVE ACTUAL AMOUNTS FOR THE YEAR ENDED JUNE 30, 2020

	2021			2020
	Budget	Actual	Variance Over/Under	Actual
<b>Revenues:</b>				
Operating revenues:				
Charges for services	\$ 724,500	\$ 755,471	\$ 30,971	\$ 748,397
Other operating revenues	-	-	-	927
Total operating revenues	<u>724,500</u>	<u>755,471</u>	<u>30,971</u>	<u>749,324</u>
Total revenues	<u>724,500</u>	<u>755,471</u>	<u>30,971</u>	<u>749,324</u>
<b>Expenditures:</b>				
Current:				
Sanitation purchases and operations	794,150	699,524	94,626	821,120
Capital outlay	<u>174,100</u>	<u>174,006</u>	<u>94</u>	<u>-</u>
Total expenditures	<u>968,250</u>	<u>873,530</u>	<u>94,720</u>	<u>821,120</u>
Revenues over (under) expenditures	(243,750)	(118,059)	125,691	(71,796)
<b>Other Financing Sources (Uses):</b>				
Transfers from Electric Fund	<u>243,750</u>	<u>230,150</u>	<u>(13,600)</u>	<u>166,150</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ 112,091</u>	<u>\$ 112,091</u>	<u>\$ 94,354</u>
<b>Reconciliation from Budgetary Basis (Modified Accrual) to Full Accrual:</b>				
Revenues and other financing sources over (under) expenditures and other financing uses		\$ 112,091		
Change in accrued vacation		3,426		
Capital outlay capitalized		174,006		
Change in deferred outflows - pension		15,132		
Change in net pension liability		(32,951)		
Change in deferred inflows - pension		488		
Depreciation		<u>(49,722)</u>		
Change in net position - GAAP basis		<u>\$ 222,470</u>		

**TOWN OF HIGHLANDS, NORTH CAROLINA**
**COMBINING STATEMENT OF FIDUCIARY NET POSITION**  
**FIDUCIARY FUNDS - PRIVATE PURPOSE TRUST FUNDS**  
**JUNE 30, 2021**

	<u>Scholarship Fund</u>	<u>Cemetery Fund</u>	<u>Total</u>
<b>Assets:</b>			
Cash and cash equivalents	\$ 891,800	\$ 280,490	\$ 1,172,290
Accounts receivable	<u>179</u>	<u>36</u>	<u>215</u>
Total assets	<u>891,979</u>	<u>280,526</u>	<u>1,172,505</u>
<b>Liabilities and Net Position:</b>			
<b>Liabilities:</b>			
Accounts payable	<u>-</u>	<u>3,196</u>	<u>3,196</u>
<b>Net Position:</b>			
Restricted for:			
Held in trust for other purposes	<u>\$ 891,979</u>	<u>\$ 277,330</u>	<u>\$ 1,169,309</u>

## TOWN OF HIGHLANDS, NORTH CAROLINA

COMBINING SCHEDULE OF CHANGES IN FIDUCIARY NET POSITION  
 FIDUCIARY FUNDS - PRIVATE PURPOSE TRUST FUNDS  
 FOR THE YEAR ENDED JUNE 30, 2021

	Scholarship Fund	Cemetery Fund	Total
<b>Additions:</b>			
Investment earnings	\$ 159	\$ 45	\$ 204
Contributions	8,280	59,600	67,880
ABC profit distributions	18,787	-	18,787
Miscellaneous	4,695	13,100	17,795
Total revenues	<u>31,921</u>	<u>72,745</u>	<u>104,666</u>
<b>Deductions:</b>			
Current:			
Cemetery Fund	-	41,754	41,754
Scholarship Fund	54,000	-	54,000
Total expenditures	<u>54,000</u>	<u>41,754</u>	<u>95,754</u>
Change in net position	(22,079)	30,991	8,912
<b>Net Position:</b>			
Beginning of year - July 1	<u>914,058</u>	<u>246,339</u>	<u>1,160,397</u>
End of year - June 30	<u>\$ 891,979</u>	<u>\$ 277,330</u>	<u>\$ 1,169,309</u>

**TOWN OF HIGHLANDS, NORTH CAROLINA****SCHEDULE OF AD VALOREM TAXES RECEIVABLE  
JUNE 30, 2021**

<b>Year Ended June 30</b>	<b>Uncollected Balance July 1, 2020</b>	<b>Additions</b>	<b>Collections and Credits</b>	<b>Uncollected Balance June 30, 2021</b>
2021	\$ -	\$ 2,925,421	\$ 2,907,331	\$ 18,090
2020	19,836	-	15,878	3,958
2019	4,801	-	1,740	3,061
2018	3,327	-	1,866	1,461
2017	589	-	-	589
2016	569	-	-	569
2015	708	-	-	708
2014	684	-	-	684
2013	771	-	-	771
2012	602	-	-	602
2011	838	-	838	-
Total	<u>\$ 32,725</u>	<u>\$ 2,925,421</u>	<u>\$ 2,927,653</u>	<u>30,493</u>

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

Ad valorem taxes receivable, net \$ 21,493

**Reconciliation of Collections and Credits with Revenues:**

Ad valorem taxes:

Ad valorem taxes - General Fund \$ 2,934,410

Reconciling items:

Miscellaneous adjustments (7,595)

Taxes written off 838

Total collections and credits \$ 2,927,653

## TOWN OF HIGHLANDS, NORTH CAROLINA

ANALYSIS OF CURRENT YEAR LEVY  
FOR THE YEAR ENDED JUNE 30, 2021

	Property Valuation	Rate	Total Levy	Total Levy	
				Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property taxed at current year's rate	\$1,861,122,293	\$ 0.157	\$ 2,921,962	\$ 2,893,503	\$ 28,459
Penalties	<u>2,203,185</u>		<u>3,459</u>	<u>3,389</u>	<u>70</u>
Total	<u>1,863,325,478</u>		<u>2,925,421</u>	<u>2,896,892</u>	<u>28,529</u>
Total property valuation	<u>\$1,863,325,478</u>				
<b>Net Levy</b>			2,925,421	2,896,892	28,529
Uncollected taxes at June 30, 2021			<u>(18,090)</u>	<u>(18,090)</u>	<u>-</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 2,907,331</u>	<u>\$ 2,878,802</u>	<u>\$ 28,529</u>
<b>Current Levy Collection Percentage</b>			<u>99.38%</u>	<u>99.38%</u>	<u>100.00%</u>

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

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

## **Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards**

### **Independent Auditor's Report**

To the Honorable Mayor and  
Town Commissioners  
Town of Highlands  
Highlands, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable of the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Highlands, North Carolina, as of and for the year ended June 30, 2021, 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 30, 2021. Our report includes a reference to other auditors who audited the financial statements of the Town of Highlands ABC Board, as described in our report on the Town of Highlands' financial statements. The financial statements of the Town of Highlands ABC Board were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with the Town of Highlands ABC Board.

### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as Findings 2021-001 and 2021-002 that we consider to be significant deficiencies.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Highlands' financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the 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 non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Town of Highlands' Responses to Findings**

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

### **Purpose of this Report**

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

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
November 30, 2021



# TOWN OF HIGHLANDS, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021

### 1. Summary of Auditor's Results

#### Financial Statements

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

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? ☐ Yes ☒ No
- Significant deficiencies identified? ☒ Yes ☐ None reported

Non-compliance material to financial  
statements noted?

☐ Yes ☒ No

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021**

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

#### **Significant Deficiency**

##### **Finding 2021-001**

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

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

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

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

**Identification of a Repeat Finding:** This is a repeat finding from the immediate previous audit 2020-001.

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

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

## **TOWN OF HIGHLANDS, NORTH CAROLINA**

### **SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2021**

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

##### **Significant Deficiency**

##### **Finding 2021-002**

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

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

**Effect:** Errors in financial reporting could occur.

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

**Identification of a Repeat Finding:** This is a repeat finding from the immediate previous audit 2020-002.

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

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



**Corrective Action Plan  
For the Year Ended June 30, 2021**

**Significant Deficiency**

**Finding 2021-001**

**Name of Contact Person:** Rebecca Shuler

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

**Proposed Completion Date:** Immediately

**Significant Deficiency**

**Finding 2021-002**

**Name of Contact Person:** Rebecca Shuler

**Corrective Action:** Management is aware of the weakness and is considering increasing the number of physical counts that occur during the year. Management is considering documenting policies and control procedures over inventory physical counts and reporting information to the finance department or allowing a member of finance to be included in the process.

**Proposed Completion Date:** Immediately

# **TOWN OF HIGHLANDS, NORTH CAROLINA**

## **SCHEDULE OF PRIOR YEAR FINDINGS FOR THE YEAR ENDED JUNE 30, 2021**

### **Significant Deficiency**

#### **Finding 2020-001**

**Status:** Repeated as Finding 2021-001

### **Significant Deficiency**

#### **Finding 2020-002**

**Status:** Repeated as Finding 2021-002

### **Material Weakness/Non-Compliance**

#### **Finding 2020-003**

**Status:** Corrected

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