

Town of Kernersville, North Carolina

Comprehensive Annual Financial Report

Year Ended June 30, 2018

Comprehensive Annual Financial Report Year Ended June 30, 2018

Town of Kernersville, North Carolina



Dawn H. Morgan, Mayor

Joe Pinnix, Jr., Mayor Pro-Tem

Bruce Boyer

Kenny Crews

Jenny Fulton

Chris Thompson

Curtis L. Swisher

Town Manager

Franz Ader

Finance Director

Cynthia Stevens

Accounting Operations Manager

“Prepared by the Finance Department”

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Town of Kernersville, North Carolina

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Introductory Section

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Town of Kernersville, North Carolina

List of Principal Officials

Board of Aldermen

Dawn H. Morgan, Mayor
Joe Pinnix, Jr., Mayor Pro-Tem
Bruce Boyer
Kenny Crews
Jenny Fulton
Chris Thompson

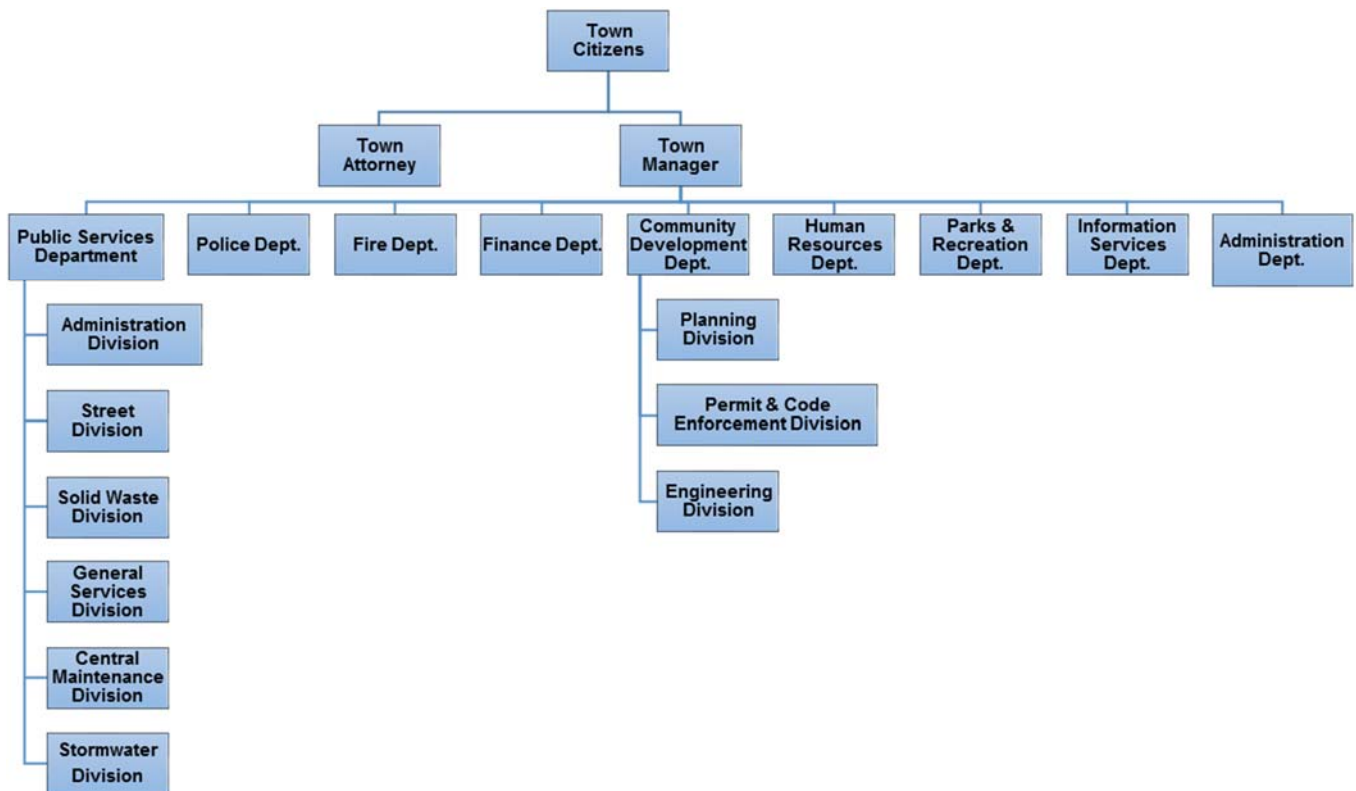
Town Manager

Curtis L. Swisher

Finance Director

Franz Ader

Organizational Chart



P.O. Box 728
Kernersville, NC 27285-0728

134 East Mountain Street
Telephone (336) 996-3121
Fax (336) 996-4822

Letter of Transmittal

Honorable Mayor
Members of the Board of Aldermen
Town of Kernersville, North Carolina

Town Profile

The Town of Kernersville, incorporated in 1871 and uniquely centered between the cities of Greensboro, High Point and Winston-Salem, continues to grow and prosper. According to North Carolina state demographics, Kernersville has a population of 25,164 as of July 1, 2018 and occupies a land area of 17.815 square miles.

The Town is empowered by the state of North Carolina to levy a property tax on both real and personal properties located within its boundaries. It is also empowered by state statute to extend its corporate limits by annexation, which occurs periodically when deemed appropriate by the governing body. The Town of Kernersville has operated under the council-manager form of government since 1965. Policy-making and legislative authority are vested in a Board of Aldermen (Board) consisting of the mayor and five other members. The Board is responsible for, among other things, passing ordinances, adopting the budget, appointing committees, and hiring both the Town's manager and attorney. The Town Manager is responsible for carrying out the policies and ordinances of the Board, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments. The Board is elected on a non-partisan basis and members, including the Mayor, serve two-year terms. The Town of Kernersville provides a range of services, including: police and fire protection, street maintenance/construction, fire and building inspections, community development, garbage collection and recreational activities.

Local Economy and Long-Term Financial Planning

The local economy continues to experience growth during this fiscal year, which has allowed Kernersville to increase its tax base. Planning for the needs of the community and enhancing the quality of life in Kernersville are two of the Town's top goals. Kernersville continues to develop and benefit from the considerable efforts of the Town's departments and long-range planning. Job growth continues to take place which is stimulating residential growth back to of level of pre-recession growth. Kernersville continues to be one of the most desirable business and residential areas in the Piedmont Triad Metropolitan Region.

Development Activity

The overall valuation of new construction for fiscal year-end (FYE) 2018 is \$63,677,105. The Town permitted over 89,000 square feet of new commercial space, including 72,000 at Bee Safe Storage. Two large institutional projects, including a 21,000 square foot library and 19,000 square foot fire station, also received permits. The Town also permitted 140 single-family residential detached permits, an increase of 7% from FYE 2017.

Commercial, Institutional and Industrial

- New commercial projects in this category include the *Family Fare* (\$1.25 million), *Burger King* (\$1million), and *Dairy Queen* (\$1 million).
- *The Paddison Memorial Library* is 21,000 square feet and is valued at over \$5.1 million.
- Another large commercial project is *Bee Safe Storage*, a new 72,000 square foot climate-controlled facility, valued at \$3.2 million.
- Large commercial upfit projects include *Aldi's* (\$1.1 million), *Kernersville Dodge* (\$950,000).
- The new ambulatory surgery center at the *Kernersville Medical Center* is valued at \$4.5 million.
- An industrial upfit of note is an 8,000 square foot up fit at *Texwipe* valued at \$1.4 million.

Town Government

- The Public Services new 23,000 square foot office, with a construction value of \$5.4 million, as completed last fiscal year. A new 19,000 square foot headquarters for the Fire Department, valued at \$6.9 million is under construction.

Mixed-Use Projects

- The Town permitted 140 new single-family detached houses in FYE18; mostly in the *Calebs Creek* neighborhoods of *Elk Ridge*, *Deer Run*, and *Haddington*. This was an increase of 7% increase from the prior fiscal year. Strong residential growth is expected to continue in the 900-acre mixed use development of *Calebs Creek*. Growth has begun and is anticipated to continue within the *Welden* community, which is a 400-acre traditional neighborhood design development off Highway 66 south of I-40. *Welden* began construction of its first phase in October 2016 and is currently under construction with a second phase. Thirty-two single-family detached houses were permitted in *Welden* in FYE 2018.
- *Smith Crossing*, a mixed-use development off Union Cross Road, had several projects completed in the last year and more currently under construction. *The Reserve at Smith Crossing*, a 376-unit apartment complex, completed the final 152-units in FYE 2018.

Infrastructure

Some of the most significant infrastructure projects that are currently under construction or have been completed during the fiscal year 2017-18 include the following:

- The Kerners Mill Creek Greenway Park is a greenway extending from Oakhurst Drive to Hopkins Road along the Kerners Mill Creek. A feasibility study was completed in 2010 and final design was completed in 2014. Construction funding has been obtained for the first phase of the project from Oakhurst Drive to the Kilburn subdivision with NCDOT funds. Construction is expected to begin in the spring of 2019.
- The NCDOT is near completion on the construction of substantial improvements to South Main Street including the intersection of South Main Street and Old Winston Road. These roadway improvements are expected to be completed in calendar year 2018.
- The NCDOT completed the new interchange on Business-40 at Macy Grove, and is now pursuing the construction of the Macy Grove Road extension from Business-40 to Piney Grove Road. Construction on the first phase from East Mountain Street to North Main Street has begun. The second phase from North Main Street to Piney Grove Road is also projected to start in 2022. This extension provides a by-pass around the northern portion of Town and further economic development on the north side of Town.

Projects like this have a positive impact on the Town's economy which will further provide increased revenues to fund the necessary services needed to keep the Town vibrant and flourishing. New businesses will continue to locate in Kernersville due to its strategic central location in the Piedmont Triad Metropolitan Region, quality of life and financial stability. The Town will continue to enjoy growth in the residential and business arena with such major business facilities as FedEx Ground's 125-acre regional hub; Deere Hitachi's 1,000,000+ square feet manufacturing complex and corporate headquarters; VA's regional health clinic; and Novant's regional medical center.

Community Participation

Partnering with Town officials, local citizen groups are adding to the success of Kernersville. While the Town has many organizations that are standard to most communities, it has several unique associations that many cities and towns do not have. These organizations add value to the community in a way that further increases the Town's appeal to prospective businesses and residents. In addition to numerous civic, craft, recreational and newcomer organizations, the Town has: Kernersville Cares for Kids, Kernersville Little Theatre, Shepherd's Center of Kernersville (for seniors), Kernersville Community Appearance, Körner's Folly Foundation (historic in nature), Paul J. Ciener Botanical Garden, Chamber of Commerce and the Kernersville Council. These organizations add "flavor" and support to Kernersville benefiting both the citizens and the local economy. All of these efforts, and others, enable me to provide an annual financial report that reflects a stable local economy and a financially sound government for the fiscal year ended June 30, 2018.

The Report

The Comprehensive Annual Financial Report (CAFR) for Fiscal Year Ended June 30, 2018 reflects the fiscal policies our elected officials have established to achieve their annual priorities for program services and capital improvements. The Town's continued economic growth coupled with realistic long-term planning, management of resources and conservative use of debt are all a part of a proven formula to ensure positive operating results.

This CAFR consists of management's representations concerning the finances of the Town of Kernersville for the fiscal year ended June 30, 2018. Consequently, management assumes full responsibility for the completeness and reliability of all the information presented herein. Management of the Town of Kernersville has established a comprehensive internal control framework that is designed to compile sufficient reliable information for the preparation of the Town's financial statements in conformity with generally accepted accounting principles (GAAP). Because the cost of internal controls should not outweigh their benefits, the Town's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement.

North Carolina general statutes require each unit of local government to publish, within four months after the close of the fiscal year, a complete set of financial statements presented in conformity with GAAP and audited in accordance with generally accepted auditing standards by a firm of licensed certified public accountants. Pursuant to this requirement, the Town engaged Dixon Hughes Goodman LLP, independent auditors, to perform an audit of the Town's reported financial position and results of operations contained in the government-wide, fund financial statements and notes to the financial statements. Working with the Town's financial staff, they made appropriate tests of data included in the financial statements and evaluated the overall financial statement presentation. The independent auditor concluded, based upon the audit, that there was a reasonable basis for rendering an unmodified (clean) opinion that the financial statements of the Town of Kernersville for the fiscal year ended June 30, 2018 are fairly presented in conformity with generally accepted accounting principles. The report of independent auditors is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the Town of Kernersville is part of a broader, state mandated "Single Audit" designed to meet the special needs of state grantor agencies. The standards governing Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the Town's internal controls and compliance with legal requirements, with emphasis on administration of state grants.

The system of internal controls is designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with state statutes, GAAP, authorization of the Board, and that financial records are a reliable basis for preparation of annual financial statements. The system includes selection and training of qualified personnel, an organizational structure that provides appropriate delegation of authority and separation of responsibilities, an understanding of financial policies and procedures, and an internal audit program.

Assuring legal compliance with state statutes requires an accounting system that contains a variety of distinctly different fiscal and accounting entities. The annual budget serves as the foundation for the Town's financial planning and control. The Board is required to legally enact a final budget, by way of a Budget Ordinance or Project Ordinance, before the close of the fiscal year. The Budget Ordinance and Project Ordinances are prepared by fund and department, and are formally amended by the Board, when required. The Town Manager is authorized to transfer budget amounts between line items within a department, but changes between departments and/or funds require approval of the Board.

Conservative budgeting is management's key strategy to maintaining financial stability and it is an integral part of the Town's financial policy. The healthy fund balance of the Town's chief fund, the General Fund, attests to that.

New Pronouncements

The Governmental Accounting Standards Board (GASB) is an independent organization that establishes accounting standards for state and local governments to improve accounting conformity and excellence with public-sector financial reporting. GASB occasionally issues statements to address accounting and financial reporting concerns. GASB 75, "Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions," became effective July 1, 2017.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada has awarded the highest form of recognition of governmental accounting and financial reporting, the Certificate of Achievement for Excellence in Financial Reporting, to the Town of Kernersville for each Annual Financial Report (Comprehensive) since 1997. We believe that this 2018 CAFR conforms to the highest reporting standards as well.

Deserving special commendation for the success of the Town's operations are skilled, talented and dedicated employees - the work force of the Town of Kernersville. Acknowledgement and appreciation are expressed for their contributions to another successful year. I also express my appreciation to the Mayor, Board of Aldermen and Town Manager for leadership, guidance, and establishment of policies for managing financial operations in a sound and progressive manner.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The Town of Kernersville's MD&A can be found immediately following the report of the independent auditors.

Respectfully submitted,



Franz Ader, MPA
Finance Director
October 31, 2018



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

Town of Kernersville
North Carolina

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

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Financial Section

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kernersville, North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kernersville as of June 30, 2018, and the respective changes in financial position and cash flows, where appropriate thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 8 to the financial statements, during 2018 the Town of Kernersville implemented GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, which resulted in a cumulative effect adjustment to net position as of the beginning of the year. 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 on pages 5 through 17, the Law Enforcement Officers' Special Separation Allowance Schedules of Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, on pages 65 and 66, respectively, the Schedule of Changes in the Total OPEB Liability and Related Ratios, on pages 67, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 68 and 69, respectively, be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information, and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information, because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Kernersville, North Carolina. The introductory section, combining and individual non-major fund statements and schedules, other supplementary information, the statistical section, and the Schedule of Expenditures of Federal and State Awards as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administration Requirements, Cost Principles, and Audit Requirement for Federal Awards*, and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and fund statements, budgetary schedules and other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual non-major fund financial statements and schedules, other supplementary information and Schedule of Expenditures of Federal and State awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2018 on our consideration of the Town of Kernersville's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance, and the results of that testing, and not to provide an opinion on the 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 Kernersville's internal control over financial reporting completion.

Dixon Hughes Goodman LLP

**High Point, North Carolina
October 31, 2018**

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Management's Discussion and Analysis

As management of the Town of Kernersville, we offer readers of the Town of Kernersville's financial statements this narrative overview and analysis of the financial activities of the Town of Kernersville for the fiscal year ended June 30, 2018. 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.

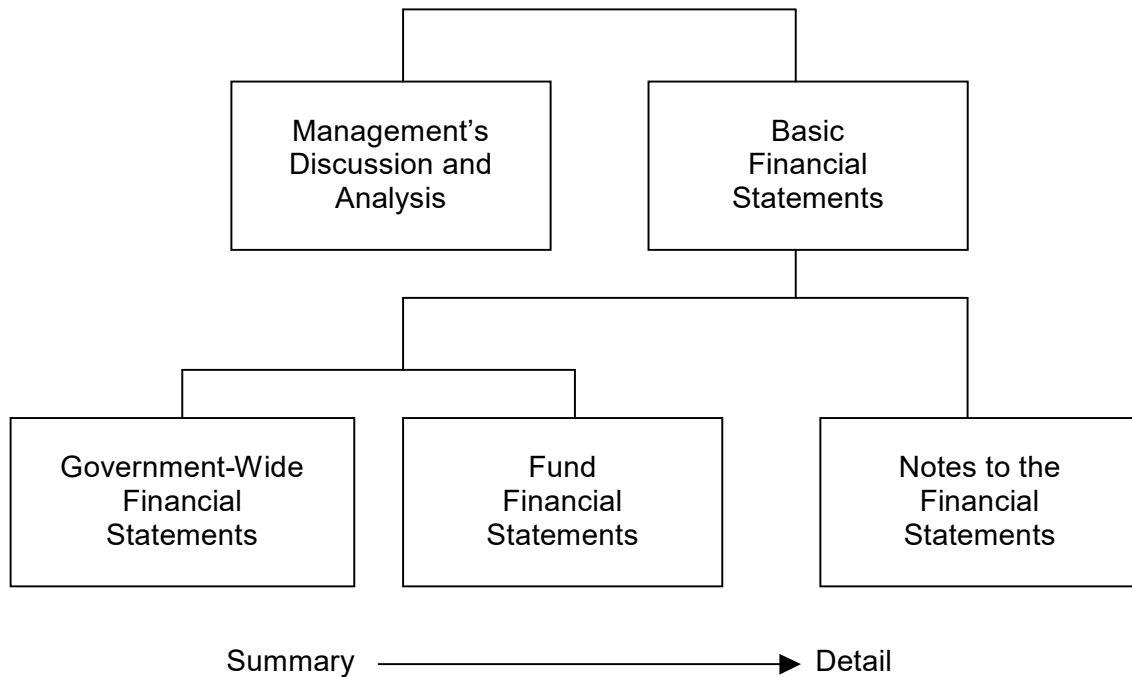
Financial Highlights

- The assets and deferred outflows of resources of the Town of Kernersville exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$132,039,577.
- The government's total net position decreased by \$2,646,961 in the current fiscal year, primarily due to the prior period adjustment associated with the implementation of GASB 75.
- As of the close of the current fiscal year, the Town of Kernersville's governmental funds reported combined ending fund balances of \$18,365,673. Approximately 43.4% of this total amount, or \$7,982,176 is available for spending at the government's discretion (unassigned).
- Approximately 29.7% of the total combined governmental fund balance or \$5,458,739 is committed to capital projects and about 24.2% or \$4,451,648 is non-spendable or restricted either by state statute or funding source.
- At the end of the current fiscal year, the unassigned fund balance for the General Fund of \$7,982,176 represented 25.5% of total General Fund expenditures for the fiscal year.
- The Town of Kernersville's total debt of both governmental and business-type activities had a net increase of \$6,782,290 during the fiscal year ending June 30, 2018. The net increase was primarily the result of an increase in installment purchases for governmental activities; specifically, the construction of a new Fire Station for \$6,900,000; the purchase of real property for \$552,000; paving improvements for \$1,000,000; the purchase of Town vehicles and various equipment for \$1,290,035; and construction of a downtown park at \$300,000. Total debt for both the governmental and business-type activities currently stands at \$27,032,661.
- The Town of Kernersville bond rating from the Standard and Poor's Corporation is AA+ on its street construction refunding bonds. Moody's Investor Service rated this issue at Aa2. These street construction bonds represent the only general obligation debt of the Town. At June 30, 2018, the street bond outstanding principal was \$2,445,000.
- For fiscal year 2017-18, the Town's property tax rate was \$0.5545 and supported 51.9% of governmental services to citizens and the community based on government-wide statements.

Overview of the financial statements

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

**Required Components of Annual Financial Report
Figure 1**



Basic financial statements

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

The next statements (Exhibits 3 through 8) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: (1) the governmental funds statements; (2) the budgetary comparison statements; and (3) the proprietary fund statements.

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

Government-wide financial statements

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

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

The government-wide statements present all of the Town's governmental activities. The governmental activities include the Town's basic services such as public safety, public service, parks and recreation, and general administration. Property taxes, other taxes, intergovernmental revenues, and state and federal grant funds finance most of these activities.

The required supplemental financial data are on Schedules A - C of this report.

Town of Kernersville, North Carolina Management's Discussion and Analysis

Fund financial statements

The fund financial statements (see Exhibit 3 through 8) 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 Kernersville, 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 Kernersville can be divided into two categories: governmental funds and proprietary funds.

Governmental funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed, short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between governmental activities (reported in 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 Kernersville 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's Internal Service Fund is classified as a type of proprietary fund. The Town uses an internal service fund to account for its Self-Insurance operations. Because this operation benefits governmental activities, the internal service fund has been included within the Governmental Activities in the government-wide financial statements. The Stormwater Enterprise Fund receives revenues from user fees for stormwater program expenses and capital improvements/repairs.

Notes to the financial statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 35 to 61 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 Kernersville's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 63 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. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

**Town of Kernersville, North Carolina
Management's Discussion and Analysis**

**Town of Kernersville
Government-Wide Financial Analysis
Net Position
Figure 2**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 21,589,207	\$ 19,558,296	\$ 1,601,826	\$ 1,572,761	\$ 23,191,033	\$ 21,131,057
Capital assets, net	153,096,940	145,644,872	991,248	1,167,630	154,088,188	146,812,502
Deferred outflows of resources	<u>2,595,230</u>	<u>3,817,878</u>	<u>71,311</u>	<u>106,895</u>	<u>2,666,541</u>	<u>3,924,773</u>
Total assets and deferred outflows of resources	<u>177,281,377</u>	<u>169,021,046</u>	<u>2,664,385</u>	<u>2,847,286</u>	<u>179,945,762</u>	<u>171,868,332</u>
Long-term liabilities	40,148,295	30,689,100	466,915	407,186	40,615,210	31,096,286
Other liabilities	6,659,829	5,391,965	208,838	196,757	6,868,667	5,588,722
Deferred inflows of resources	<u>394,284</u>	<u>484,340</u>	<u>10,846</u>	<u>12,446</u>	<u>405,130</u>	<u>496,786</u>
Total liabilities and deferred inflows of resources	<u>47,202,408</u>	<u>36,565,405</u>	<u>686,599</u>	<u>616,389</u>	<u>47,889,007</u>	<u>37,181,794</u>
Net position:						
Net investment in capital assets	135,141,225	133,480,840	733,649	778,429	135,874,874	134,259,269
Restricted for:						
Stabilization by state statute	2,537,142	2,542,233	-	-	2,537,142	2,542,233
Tourism	42,227	18,463	-	-	42,227	18,463
Public safety	395,480	355,132	-	-	395,480	355,132
Unrestricted	<u>(8,037,105)</u>	<u>(3,941,027)</u>	<u>1,226,959</u>	<u>1,452,468</u>	<u>(6,810,146)</u>	<u>(2,488,559)</u>
Total net position	<u>\$130,078,969</u>	<u>\$132,455,641</u>	<u>\$ 1,960,608</u>	<u>\$ 2,230,897</u>	<u>\$132,039,577</u>	<u>\$134,686,538</u>

Over time, net position may serve as one useful indicator of a government's financial condition. The total governmental assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$132,039,577 at June 30, 2018. The largest portion of net position (102.9%) reflects the Town's net investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens. Consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$2,974,849, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$(6,810,146) is unrestricted.

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

- Current year property tax collections were \$16,474,026, representing an increase of \$803,893 primarily due new construction being added. This year's property tax collection rate was 99.28%.
- Sales and use tax collections were \$5,330,872, representing an increase of \$497,694 over last year's collections. This increase of 10.3% over last year's collections represents an above average economic growth in Kernersville.

**Town of Kernersville, North Carolina
Management's Discussion and Analysis**

- Penalties and interest earnings in the governmental funds were \$166,013, representing an increase of \$88,967. This increase of 115.5% is attributed to an increase in the collection of tax penalties and loan escrow account interest.

**Town of Kernersville Changes In Net Position
Figure 3**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 2,805,927	\$ 2,939,308	\$ 1,074,193	\$ 1,056,296	\$ 3,880,120	\$ 3,995,604
Operating grants and contributions	2,026,108	2,500,775	-	-	2,026,108	2,500,775
Capital grants and contributions	996,330	6,653,970	-	-	996,330	6,653,970
General revenues:						
Property taxes	16,239,699	15,371,366	-	-	16,239,699	15,371,366
Other taxes	283,587	254,325	-	-	283,587	254,325
Unrestricted inter-governmental revenues	7,977,157	7,392,058	-	8,760	7,977,157	7,400,818
Investment earnings, Unrestricted	176,105	80,037	15,648	5,358	191,753	85,395
Gain (loss) on sale of capital assets	60,812	52,202	-	-	60,812	52,202
Miscellaneous	2,123,660	149,485	-	-	2,123,660	149,485
Total revenues	<u>32,689,385</u>	<u>35,393,526</u>	<u>1,089,841</u>	<u>1,070,414</u>	<u>33,779,226</u>	<u>36,463,940</u>
Expenses:						
General government	\$ 4,547,895	\$ 4,630,977	\$ -	\$ -	\$ 4,547,895	\$ 4,630,977
Public safety	15,078,648	14,815,390	-	-	15,078,648	14,815,390
Public service	9,039,660	8,980,651	-	-	9,039,660	8,980,651
Culture and recreation	2,061,807	2,014,319	-	-	2,061,807	2,014,319
Stormwater	-	-	1,460,104	1,020,285	1,460,104	1,020,285
Unallocated interest expense	497,994	205,476	-	-	497,994	205,476
Total expenses	<u>31,226,004</u>	<u>30,646,813</u>	<u>1,460,104</u>	<u>1,020,285</u>	<u>32,686,108</u>	<u>31,667,098</u>
Increase (decrease) in net position before transfers	1,463,381	4,746,713	(370,263)	50,129	1,093,118	4,796,842
Transfers	(220,579)	(220,579)	220,579	220,579	-	-
Increase (decrease) in net position	1,242,802	4,526,134	(149,684)	270,708	1,093,118	4,796,842
Net position, July 1, as previously stated	132,455,641	129,219,935	2,230,897	1,960,189	134,686,538	131,180,124
Cumulative effect adjustment	(3,619,474)	(1,290,428)	(120,605)	-	(3,740,079)	(1,290,428)
Net position, July 1, as Adjusted	<u>128,836,167</u>	<u>127,929,507</u>	<u>2,110,292</u>	<u>1,960,189</u>	<u>130,946,459</u>	<u>129,889,696</u>
Net position, ending	<u>\$ 130,078,969</u>	<u>\$ 132,455,641</u>	<u>\$ 1,960,608</u>	<u>\$ 2,230,897</u>	<u>\$ 132,039,577</u>	<u>\$ 134,686,538</u>

Governmental activities. The Town's net position from governmental activities decreased by \$2,376,672 during the year. This net decrease is primarily the result of program and general revenues exceeding expenses for the fiscal year ending June 30, 2018.

Business-type activities. The Town's net position from business-type activities decreased by \$270,289 during the year. This net decrease is primarily the result of increased expenses.

Town of Kernersville, North Carolina Management's Discussion and Analysis

Financial analysis of the Town's funds

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

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

The General Fund is the chief operating fund of the Town of Kernersville. At the end of the current fiscal year, the fund balance was \$14,205,764, of which \$4,000,644 was restricted or non-spendable and \$10,205,120 was either committed, assigned or unassigned. \$2,523,845 was restricted by state statute. Committed fund balance amounted to \$1,749,834 and is set aside for capital projects. \$473,110 was assigned and \$7,982,176 was unassigned.

As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The unassigned General Fund - fund balance of \$7,982,176 represents 25.5% of total General Fund expenditures, while the total General Fund - fund balance of \$14,205,764 represents 45.4% of that same amount.

The Public Works Facility fund balance at the end of the fiscal year was \$11,154, the entire amount was committed for capital projects. The fund exhibited a decrease of \$3,414,092, or 99.7%. This was due to an increase in expenditures.

The Fire Department Facility fund balance at the end of the fiscal year was \$3,691,688, the entire amount was committed for capital projects. The fund exhibited an increase of \$3,411,846 or 1,219% growth. This was due to an increase in installment purchase obligations issued.

The Town had five Non-major Special Revenue or Capital Project Funds: Occupancy Tax Fund, Emergency Telephone System Fund, Contributions Fund, Law Enforcement Forfeitures Fund, and Kerner Mill Greenway Capital Projects Ordinance Fund. These funds had a total fund balance of \$457,067 at the fiscal year end. Of this amount, \$451,004 was restricted by state statute or other uses, while \$6,063 was committed for capital projects.

Key changes in several non-major special revenue funds are summarized in the following narrative. The Occupancy Tax Fund had an increase in fund balance of 77.3% or \$24,215 due primarily to an increase in budgeted revenue of 34.8% or \$41,720 associated with occupancy tax collections. The Emergency Telephone System Fund saw an increase in fund balance of 20.7% or \$7,854 due primarily to 911 expenditures being 33.6% or \$25,861 less than budgeted. The Contributions Fund had an increase in fund balance of \$7,881 or 9.2% primarily due to a decrease in expenditures of 51.1% or 9,451 associated with Public Safety. The Law Enforcement Forfeiture Fund had an increase in fund balance of \$24,613 or 10.6% due primarily to a decrease in expenditures of 59.7% or \$117,481 associated with the Police Department.

Of the Non-major Capital Project Funds, the Kerner Mill Greenway Capital Projects Ordinance Fund had a decrease in fund balance of 69.8% or \$13,996 due primarily to expenditures being greater than revenues.

At June 30, 2018, the total of the General Fund and all other governmental funds of the Town reported a combined fund balance of \$18,365,673, with an increase of 8.7% or \$1,472,512 over the previous year. The increase is primarily due to an increase in the General Fund – fund balance of \$1,424,191 due mostly to increases in the committed and unassigned fund balances.

General Fund budgetary highlights: 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.

There were ten budget amendments during the fiscal year. The ten budget amendments resulted in a total net increase in budgeted general fund expenditures of \$3,262,948 for the fiscal year. In summary, the overall net

Town of Kernersville, North Carolina Management's Discussion and Analysis

increase is primarily attributed to the following: Motorola loan purchase carryover (\$823,167), general carryover expenses from the prior year (\$336,836), a transfer to the Capital Reserve Fund for Caleb's Creek and Weldon fees (\$184,360), Lihmil Development Agreement water and sewer construction costs (\$379,095), Founders Park development and construction (\$490,090), and a transfer in the amount of \$106,000 to the Public Services Facility – Capital Project Fund.

Numerous budget-to-actual variances in both revenues and expenditures warrant discussion. The largest source of revenue consists of ad valorem property taxes for real property (buildings, houses, etc.), individual/business personal property (equipment) and vehicles. A positive budget variance of \$216,156 or 1.3% occurred with this revenue category as a result of conservative budget estimates.

The unrestricted intergovernmental category consists of revenue sources collected from taxes and fees which the receiving government has unrestricted use as to use or function. The category had an overall increase of \$502,582 or 6.7%. The most notable negative budget variance was solid waste disposal tax in the amount of \$15,557 or (48.6)%. There were two notable positive budget variances: the alcoholic beverage tax (\$127,094 or 26.7%) and the local option sales and use tax (\$312,622 or 6.2%).

The restricted revenue category consists of state, local and federal grants and other funds restricted by their use. The overall category had a negative budget variance of \$274,858 or (12.6)%. The most notable variances were a decrease in the State transportation grants at \$80,000 or (74.1%) and a decrease in the CCUC reimbursements in the amount of \$162,003 or (13.4%). Both of these revenue sources decreased significantly as a result of grant funding that did not occur and projects were not completed so revenue reimbursements did not occur.

The net budget variance in the Town's general fund revenue excluding transfers in or out was a positive \$163,985 or 0.5%.

The expenditure budget to actual variances were positive in all expenditure categories: general government, public safety, public service, culture/recreational and debt service. Notable budget variances within these categories warrant explanation. Within the General Government category, all departments experienced positive budget to actual variances with the category having a positive budget variance totaling \$335,506 or 6.1%. The greatest variances occurred within the Governing Body and Human Resources Departments. The Governing Body Department experienced a positive variance of \$189,802 or 11.8% primarily due to legal trust and legal expenses being lower than predicted. The Human Resources Department had a budget variance of \$43,114 or 7.2% primarily due to software maintenance fees and salaries being lower than predicted.

The category with the greatest positive budget variance in the General Fund was the Public Service category, all departments experienced positive budget-to-actual variances with the total category positive budget variance being 9.2% or \$730,229. Two departments with notable budget variances were the Engineering and Street Departments. The greatest positive budget variance within the category occurred in the Street Department at a total of \$420,287 or 14.2% primarily because paving improvements were not completed at fiscal year-end and street lighting expenses being lower than predicted. The Engineering Department had a positive budget variance of \$188,284 or 20.9% primarily the result of a sewer study not completed and professional services expenses being lower than predicted.

Within the Public Safety category, all departments experienced positive budget to actual variance with the category having a positive budget variance totaling \$714,249 or 4.3%. All departments within the Public Safety category experienced positive budget-to-actual variances with the largest occurring in the Police and Fire Departments. The Police Department had the largest positive budget variance occurred of \$387,277 or 4.0% primarily because personnel-related expenses and departmental supply expenses were lower than predicted. The Fire Department had a positive budget variance of 274,048 or 4.5% primarily due to the following expenses being less than predicted: personnel-related, and maintenance of buildings, radios, and equipment.

Within the Cultural and Recreational category, all departments experienced positive budget to actual variance with the category having a positive budget variance totaling \$557,194 or 20.2%. The Recreation Department had the greatest variance of \$555,528 or 20.5% primarily due to the following expenses being less than predicted:

Town of Kernersville, North Carolina Management's Discussion and Analysis

personnel-related, building maintenance, and construction improvements at Ivey Redmon Athletic Sports Complex and Founders Park.

The cumulative total expenditure variance for all categories and departments within the General Fund including debt service (excluding transfers in or out) was 6.9% or \$2,337,178. Including transfers and other financing sources, no fund balance was appropriated (compared to the budgeted amount of \$1,788,962) to balance General Fund revenues with General Fund expenditures.

Proprietary funds. The Town of Kernersville's proprietary funds provide the same type of information found in the government-wide statements. The Town has two proprietary funds: the Stormwater Utility Fund and the Worker's Compensation Fund. The Stormwater Enterprise Fund receives revenues from user fees for stormwater program expenses and capital improvements/repairs. The Stormwater Enterprise Fund total net position decreased 7.0% or \$270,289 to a total of \$1,960,608. The decrease was primarily the result of loan equipment ordered but not received by fiscal year-end and contracted services expenses being less than predicted for a stream restoration project and construction of a bioretention cell.

The Workers Compensation Self-Insurance Fund - the Town's only internal service fund - provides insurance for workers compensation claims for Town employees. The assets of this fund will fluctuate yearly depending upon the number and dollar amount of claims made against it. Total net position of the Self-Insurance Fund at the end of the fiscal year increased an amount of 12.8% or \$107,332 to a total of \$943,573.

Capital asset and debt administration

Capital assets. The Town of Kernersville's capital assets for its governmental activities as of June 30, 2018 totals \$153,096,940 (net of accumulated depreciation). These assets include buildings, roads, and bridges, land, machinery and equipment, park facilities, and vehicles. The Town of Kernersville's capital assets in the business-type activities or the Stormwater Fund totaled \$991,248.

For the fiscal year ended June 30, 2018, major capital asset transactions for governmental activities include the following:

- Acquisition of land, rights-of-ways and construction in progress increased in the amount of \$1,742,485.
- Buildings and improvements increased in the amount of \$5,233,501.
- Land improvements increased in the amount of \$164,507.
- Infrastructure saw a decrease in the amount of \$1,585,602.
- Equipment and heavy equipment increased in the amount of \$2,054,001.
- Vehicles for various departments increased in the amount of \$169,191.

For the fiscal year ended June 30, 2018, major capital asset transactions for the business-type activities (Stormwater Fund) include the following:

- Buildings and improvements decreased in the amount of \$1,011.
- Land improvements saw a decrease in the amount of \$9,721.
- Infrastructure saw a decrease in the amount of \$3,430.
- Equipment and heavy equipment decreased in the amount of \$149,045.
- Vehicles increase in the amount of \$13,724

Additional information on the Town's capital assets can be found in Note 2.A.5 in the Notes to the Financial Statements.

**Town of Kernersville, North Carolina
Management's Discussion and Analysis**

**Town of Kernersville Capital Assets (Net of Depreciation)
Figure 4**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Capital assets not being depreciated:						
Land	\$ 79,803,022	\$ 76,361,136	\$ -	\$ -	\$ 79,803,022	\$ 76,361,136
Construction in progress	<u>2,163,552</u>	<u>3,859,954</u>	<u>19,015</u>	<u>19,015</u>	<u>2,182,567</u>	<u>3,878,969</u>
Total capital assets not being depreciated	<u>81,966,574</u>	<u>80,221,090</u>	<u>19,015</u>	<u>19,015</u>	<u>81,985,589</u>	<u>80,240,105</u>
Capital assets being depreciated:						
Buildings and improvements	11,777,549	6,544,048	48,273	49,284	11,825,822	6,593,332
Land improvements	1,597,447	1,761,954	118,470	127,642	1,715,917	1,889,596
Infrastructure	51,256,196	52,841,798	99,172	102,602	51,355,368	52,944,400
Equipment and heavy equipment	4,968,178	2,914,177	678,257	827,302	5,646,435	3,741,479
Vehicles	<u>1,530,996</u>	<u>1,361,805</u>	<u>28,061</u>	<u>41,785</u>	<u>1,559,057</u>	<u>1,403,590</u>
Total capital assets not being depreciated	<u>71,130,366</u>	<u>65,423,782</u>	<u>972,233</u>	<u>1,148,615</u>	<u>72,102,599</u>	<u>66,572,397</u>
Total capital assets	<u>\$ 153,096,940</u>	<u>\$ 145,644,872</u>	<u>\$ 991,248</u>	<u>\$ 1,167,630</u>	<u>\$ 154,088,188</u>	<u>\$ 146,812,502</u>

Long-term debt. As of June 30, 2018, the Town of Kernersville had total bonded debt outstanding of \$2,445,000 for street construction. This debt was issued in fiscal year 2003-04 and refunded in the prior year. The last payment on the refunding debt is scheduled to occur in May 2024. This is a general obligation debt and, thus, is backed by the full faith and credit of the Town.

**Town of Kernersville Outstanding Debt
Figure 5**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Refunding bond	\$ 2,445,000	\$ 2,850,000	\$ -	\$ -	\$ 2,445,000	\$ 2,850,000
Revolving loan payable	2,800,000	3,200,000	-	-	2,800,000	3,200,000
Installment purchases	<u>21,512,884</u>	<u>13,811,170</u>	<u>274,777</u>	<u>389,201</u>	<u>21,787,661</u>	<u>14,200,371</u>
Total	<u>\$ 26,757,884</u>	<u>\$ 19,861,170</u>	<u>\$ 274,777</u>	<u>\$ 389,201</u>	<u>\$ 27,032,661</u>	<u>\$ 20,250,371</u>

The Town of Kernersville's total debt of both governmental and business-type activities had a net increase of \$6,782,290 or 33.3% for the fiscal year ended June 30, 2018. The net increase was primarily the result of more debt being issued than retired. Total debt currently stands at \$27,032,661.

Refunding bonds issued in fiscal year 2015-16 represent the only general obligation debt of the Town. As mentioned in the financial highlights section of this document, the Standard and Poor's Corporation rated the street construction debt AA+. The Moody's Investor Service rated the debt at Aa2. These ratings are a clear indication of the Town's financial condition and its consistency for managing its finances well.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8% of the total assessed value of taxable property located within the government's boundaries or \$234,747,556. The total debt outstanding at the close of this fiscal year was \$27,032,661, for governmental and business-type activities, resulting in a legal debt margin for the Town of Kernersville of \$207,714,895. Hence, the total bonded

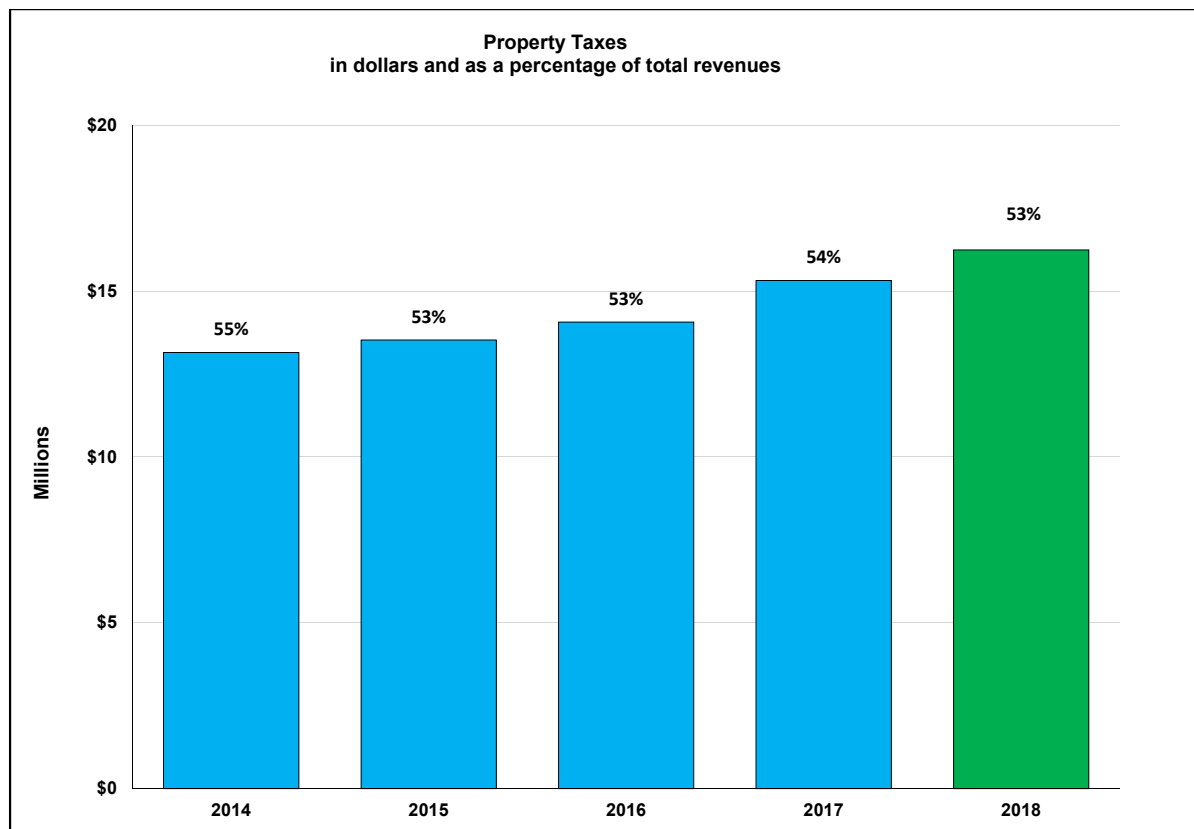
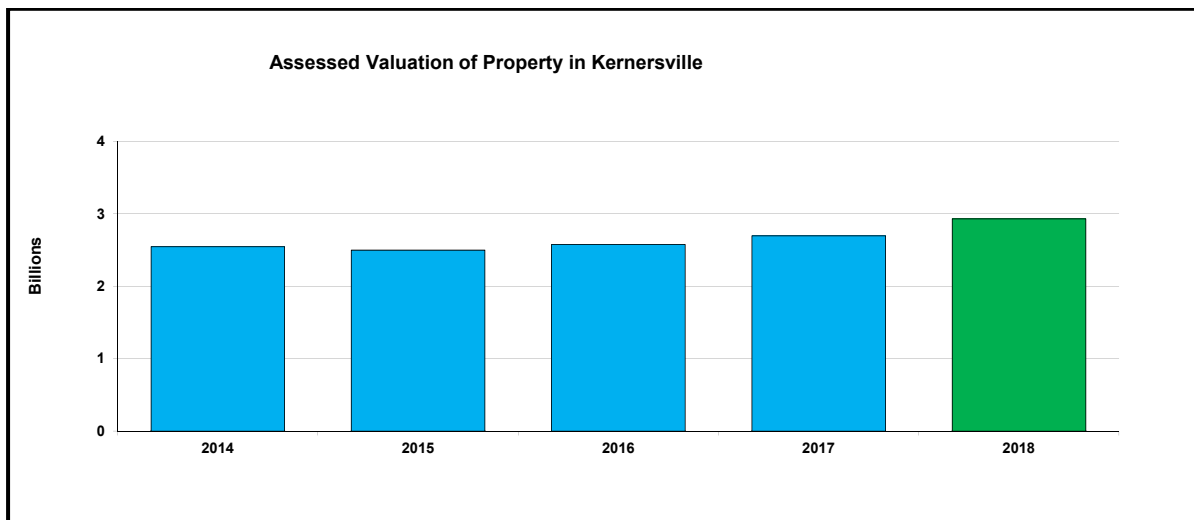
Town of Kernersville, North Carolina Management's Discussion and Analysis

debt for the Town of Kernersville is 13.0% of the total legal debt margin. The Town has no authorized but unissued debt at June 30, 2018.

Additional information regarding the Town's long-term debt can be found on Section 2.B.7 of the notes.

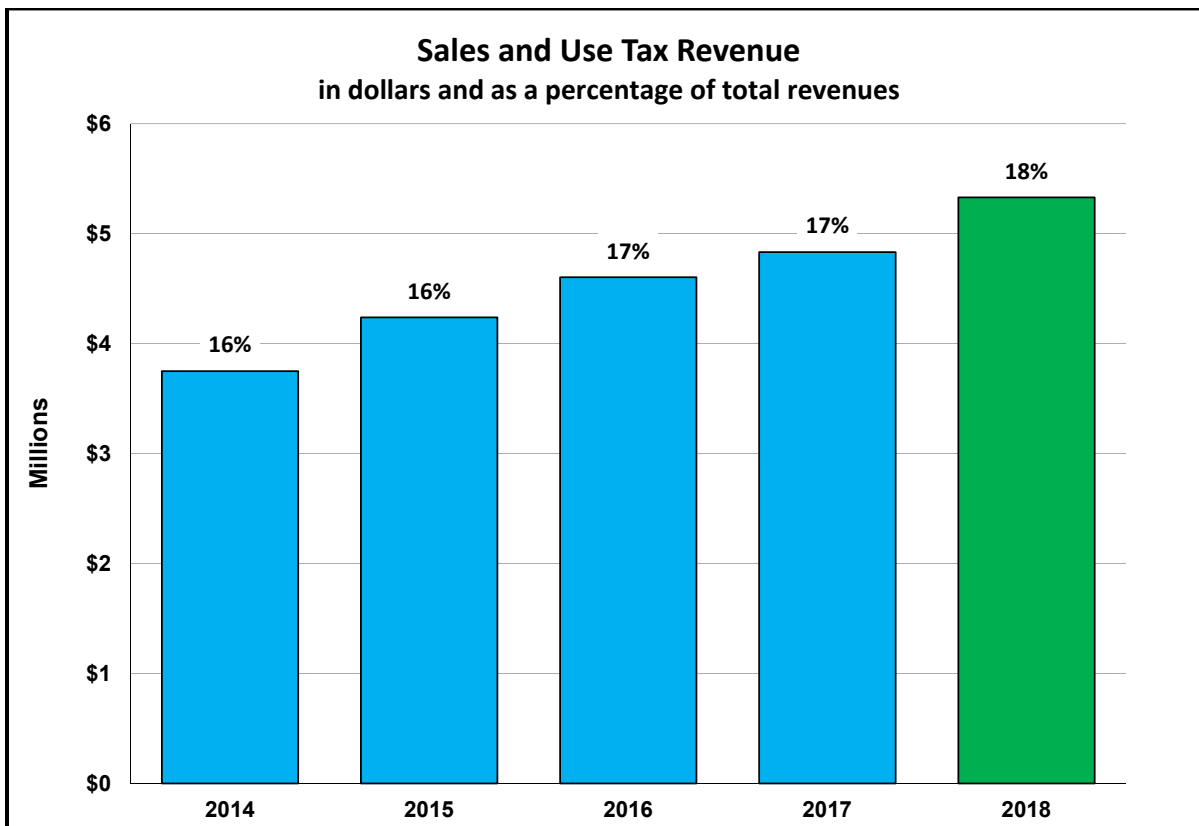
Economic factors and next year's budgets and rates

The following key economic information reflects the growth and prosperity in Kernersville.

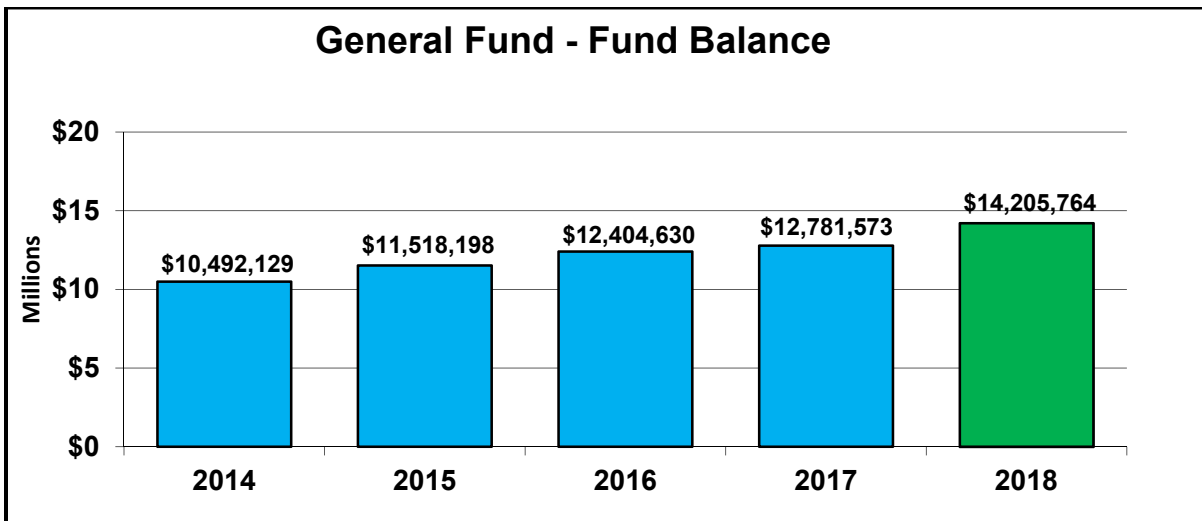


The preceding graphs show that the Town's largest source of revenue, property taxes, increased steadily from 2014 to 2018.

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Growth in the Town's second largest revenue source (sales and use tax) has increased steadily from 2014 to 2018. A 5.0% or \$228,014 collection increase was observed in 2017 followed by a 10.3% increase of \$497,694 in 2018.



Town of Kernersville, North Carolina Management's Discussion and Analysis

As indicated earlier, fund balance can be a good indicator of the General Fund's liquidity. The Town's General Fund - fund balance has remained relatively stable over the years, as can be seen from the graph above. From 2014 to 2015, the fund balance increased 9.8% primarily due to expenditures being less than budgeted including a fire truck that was not purchased. The increase of 7.7% in 2015-16 was primarily due to loan items not being purchased including a fire truck and self-contained breathing apparatus when a loan was received during the fiscal year and expenditures being less than budgeted. The increase of 3.0% or \$376,943 in 2016-17 was due primarily to an increase in taxes collected and an increase in contributions and donations.

The General Fund – fund balance increase of 11.1% or \$1,424,191 in 2017-18 was primarily due to equipment ordered at year-end but not received, projects in progress at fiscal year-end (paving and Founders park), and revenues exceeding expenditures.

While labor statistics are not available for the Town of Kernersville, they are available for both Forsyth County and Guilford County, where Kernersville is located. As of June 30, 2018, the unemployment rate for Forsyth County was 4.2% and Guilford County was 4.5% compared to the State seasonally adjusted rate of 4.2% during the same period. The data was obtained from the Employment Security Commission of North Carolina.

Budget highlights for the upcoming fiscal year ending June 30, 2019

Governmental funds: The General Fund budget for fiscal year 2018-19 was approved at \$34,457,843. The collection of property taxes - the Town's largest source of revenue - is expected to conservatively increase compared to the amount collected in fiscal year 2017-18 based upon prior collection history. The General Fund tax rate for the fiscal year ending June 30, 2019 is 57.00 cents per hundred-dollar valuation of taxable property.

The unrestricted intergovernmental revenue categories budgeted in 2018-19 are expected to modestly increase compared to the amounts collected in fiscal year 2017-18 based upon prior collection history.

The restricted intergovernmental revenue categories budgeted in 2018-19 allocates \$2,849,150 in budgeted loans to fund several capital outlay items including the following:

• Land Purchases (120 and 126 N. Cherry St.)	\$ 215,000
• Station 43 Roof Improvements	50,000
• Paving Improvements	1,000,000
• Ivey Redmon Athletic Sports Complex Lighting	675,000
• Courtroom Furniture	40,000
• Equipped Patrol Car Replacements (7)	387,925
• In-Car Camera Replacements (8)	54,225
• Fire Hose Replacement	80,000
• Lawn Mowers	20,000
• SCBA Bottles	10,000
• Utility Truck	45,000
• Front-End Refuse Loader	272,000

Other non-major governmental fund services and expenditures in 2018-19 are comparable to those in the prior year.

Enterprise fund: The budget for the Stormwater Enterprise Fund was approved at \$2,418,382 for 2018-19 with one significant project scheduled: the Ivey Redmon Stream Restoration Project. A Contracted Services of \$630,000 is budgeted for this project. Contributions from the Federal Clean Water Trust Fund is budgeted at \$365,000 to assist with funding the stream restoration project. Also notable, \$200,000 is budgeted for storm drainage maintenance.

**Town of Kernersville, North Carolina
Management's Discussion and Analysis**

The installment purchase budget in 2018-19 allocates \$365,000 in loans to fund two (2) utility trucks (\$80,000) and one (1) automated yard waste truck (\$285,000).

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 Kernersville, 134 East Mountain Street, Post Office Drawer 728, Kernersville, North Carolina 27285.

As management of the Town of Kernersville, we offer readers of the Town of Kernersville's financial statements this narrative overview and analysis of the financial activities of the Town of Kernersville for the fiscal year ended June 30, 2018. 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.

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Basic Financial Statements

Town of Kernersville, North Carolina
Statement of Net Position
June 30, 2018

Exhibit 1
(2 pages)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 12,060,638	\$ 1,601,826	\$ 13,662,464
Prepaid assets	2,700	-	2,700
Receivables:			
Taxes receivable, net	334,250	-	334,250
Accrued interest receivable on taxes	100,825	-	100,825
Accounts receivable, net	157,294	-	157,294
Due from other governments	2,379,848	-	2,379,848
Restricted cash and cash equivalents	<u>6,553,652</u>	<u>-</u>	<u>6,553,652</u>
Total current assets	<u>21,589,207</u>	<u>1,601,826</u>	<u>23,191,033</u>
Noncurrent assets:			
Capital assets:			
Capital assets not depreciated	81,966,574	-	81,966,574
Other capital assets, net of depreciation	<u>71,130,366</u>	<u>991,248</u>	<u>72,121,614</u>
Total noncurrent assets	<u>153,096,940</u>	<u>991,248</u>	<u>154,088,188</u>
Total assets	<u>174,686,147</u>	<u>2,593,074</u>	<u>177,279,221</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	<u>2,595,230</u>	<u>71,311</u>	<u>2,666,541</u>
Total deferred outflows of resources	<u>2,595,230</u>	<u>71,311</u>	<u>2,666,541</u>
Total assets and deferred outflows of resources	<u>\$ 177,281,377</u>	<u>\$ 2,664,385</u>	<u>\$ 179,945,762</u>

Town of Kernersville, North Carolina
Statement of Net Position
June 30, 2018

Exhibit 1
(2 pages)

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	\$ 1,062,662	\$ 78,898	\$ 1,141,560
Performance bonds	579,554	-	579,554
Claims and judgments	146,168	-	146,168
Accrued interest payable	88,464	6,372	94,836
Advanced rent payments	47,424	-	47,424
Taxes collected in advance	9,078	-	9,078
Current portion of long-term liabilities	<u>4,726,479</u>	<u>123,568</u>	<u>4,850,047</u>
Total current liabilities	<u>6,659,829</u>	<u>208,838</u>	<u>6,868,667</u>
Long-term liabilities:			
Due in more than one year	23,437,958	167,542	23,605,500
Net pension liability - LGERS	3,156,702	96,584	3,253,286
Total pension liability - LEO	2,775,271	-	2,775,271
Total OPEB liability	<u>10,778,364</u>	<u>219,967</u>	<u>10,998,331</u>
Total long-term liabilities	<u>40,148,295</u>	<u>484,093</u>	<u>40,632,388</u>
Total liabilities	<u>46,808,124</u>	<u>692,931</u>	<u>47,501,055</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	<u>394,284</u>	<u>10,846</u>	<u>405,130</u>
Total deferred inflows of resources	<u>394,284</u>	<u>10,846</u>	<u>405,130</u>
NET POSITION			
Net investment in capital assets	135,141,225	733,649	135,874,874
Restricted for:			
Stabilization by state statute	2,537,142	-	2,537,142
Tourism	42,227	-	42,227
Public safety	395,480	-	395,480
Unrestricted	<u>(8,037,105)</u>	<u>1,226,959</u>	<u>(6,810,146)</u>
Total net position	<u>130,078,969</u>	<u>1,960,608</u>	<u>132,039,577</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 177,281,377</u>	<u>\$ 2,664,385</u>	<u>\$ 179,945,762</u>

Town of Kernersville, North Carolina
Statement of Activities
Year Ended June 30, 2018

Exhibit 2

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
General government	\$ 4,547,895	\$ 409,277	\$ 116,543	\$ -
Public safety	15,078,648	133,629	708,377	-
Public service	9,039,660	1,879,476	1,201,188	996,330
Cultural and recreation	2,061,807	383,545	-	-
Interest on long-term obligations	497,994	-	-	-
Total governmental activities	<u>31,226,004</u>	<u>2,805,927</u>	<u>2,026,108</u>	<u>996,330</u>
Business-type activities:				
Stormwater	<u>1,460,104</u>	<u>1,074,193</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>1,460,104</u>	<u>1,074,193</u>	<u>-</u>	<u>-</u>
Total government	<u>\$ 32,686,108</u>	<u>\$ 3,880,120</u>	<u>\$ 2,026,108</u>	<u>\$ 996,330</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				
Other taxes				
Unrestricted intergovernmental revenues				
Unrestricted investment earnings				
Gain on sale of capital assets				
Miscellaneous				
Total general revenues not including transfers				
Net transfers				
Total general revenues and transfers				
Change in net position				
Net position, beginning, previously reported				
Cumulative effect adjustment				
Net position, beginning, adjusted				
Net position, ending				

Net Revenue (Expense) and Changes in Net Position		
Governmental Activities	Business-Type Activities	Total
\$ (4,022,075)	\$ -	\$ (4,022,075)
(14,236,642)	-	(14,236,642)
(4,962,666)	-	(4,962,666)
(1,678,262)	-	(1,678,262)
<u>(497,994)</u>	<u>-</u>	<u>(497,994)</u>
<u>(25,397,639)</u>	<u>-</u>	<u>(25,397,639)</u>
<u>-</u>	<u>(385,911)</u>	<u>(385,911)</u>
<u>-</u>	<u>(385,911)</u>	<u>(385,911)</u>
<u>(25,397,639)</u>	<u>(385,911)</u>	<u>(25,783,550)</u>
16,239,699	-	16,239,699
283,587	-	283,587
7,977,157	-	7,977,157
176,105	15,648	191,753
60,812	-	60,812
2,123,660	-	2,123,660
<u>26,861,020</u>	<u>15,648</u>	<u>26,876,668</u>
<u>(220,579)</u>	<u>220,579</u>	<u>-</u>
<u>26,640,441</u>	<u>236,227</u>	<u>26,876,668</u>
<u>1,242,802</u>	<u>(149,684)</u>	<u>1,093,118</u>
132,455,641	2,230,897	134,686,538
<u>(3,619,474)</u>	<u>(120,605)</u>	<u>(3,740,079)</u>
<u>128,836,167</u>	<u>2,110,292</u>	<u>130,946,459</u>
<u>\$ 130,078,969</u>	<u>\$ 1,960,608</u>	<u>\$ 132,039,577</u>

Town of Kernersville, North Carolina
Balance Sheet
Governmental Funds
June 30, 2018

Exhibit 3
(2 pages)

	Major Funds				Total Governmental Funds
	General Fund	Public Works Facility Capital Projects Ordinance Fund	Fire Department Facility Capital Projects Ordinance Fund	Non-major Governmental Funds	
ASSETS					
Cash and cash equivalents	\$ 11,038,715	\$ 21,186	\$ -	\$ 447,391	\$ 11,507,292
Restricted cash	2,053,653	-	4,498,605	1,394	6,553,652
Prepaid assets	2,700	-	-	-	2,700
Taxes receivable, net	334,250	-	-	-	334,250
Accounts receivable, net	157,294	-	-	-	157,294
Due from other governments	2,366,551	-	-	13,297	2,379,848
	<u>\$ 15,953,163</u>	<u>\$ 21,186</u>	<u>\$ 4,498,605</u>	<u>\$ 462,082</u>	<u>\$ 20,935,036</u>
Total assets					
LIABILITIES					
Accounts payable and accrued liabilities	\$ 777,093	\$ 10,032	\$ 270,522	\$ 5,015	\$ 1,062,662
Checks written in excess	-	-	536,395	-	536,395
Performance bonds	579,554	-	-	-	579,554
Advanced rent payments	47,424	-	-	-	47,424
Taxes collected in advance	9,078	-	-	-	9,078
	<u>1,413,149</u>	<u>10,032</u>	<u>806,917</u>	<u>5,015</u>	<u>2,235,113</u>
Total liabilities					
DEFERRED INFLOWS OF RESOURCES					
Property tax receivable	334,250	-	-	-	334,250
	<u>334,250</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>334,250</u>
Total deferred inflows of resources					
FUND BALANCES					
Non-spendable:					
Prepaid assets	2,700	-	-	-	2,700
Restricted:					
Stabilization by state statute	2,523,845	-	-	13,297	2,537,142
Capital equipment	1,474,099	-	-	-	1,474,099
Tourism	-	-	-	42,227	42,227
Public safety	-	-	-	395,480	395,480
Committed:					
Capital projects	1,749,834	11,154	3,691,688	6,063	5,458,739
Assigned:					
Subsequent year's expenditures	473,110	-	-	-	473,110
Unassigned	7,982,176	-	-	-	7,982,176
	<u>14,205,764</u>	<u>11,154</u>	<u>3,691,688</u>	<u>457,067</u>	<u>18,365,673</u>
Total fund balances					
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 15,953,163</u>	<u>\$ 21,186</u>	<u>\$ 4,498,605</u>	<u>\$ 462,082</u>	<u>\$ 20,935,036</u>

Town of Kernersville, North Carolina
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Position
Year Ended June 30, 2018

Exhibit 3
(2 pages)

Amounts reported for governmental activities in the Statement of Net Position
(Exhibit 1) are different because:

Total fund balance, governmental funds	\$ 18,365,673
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.	153,096,940
Deferred outflows of resources related to pensions are not reported in the funds	2,595,230
Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are inflows of resources in the funds.	100,825
The Self-Insurance Internal Service Fund is used by management to charge the costs of workers' compensation claims to the General Fund. The assets and liabilities of the Self-Insurance Internal Service Fund are included in governmental activities in the Statement of Net Position.	943,573
Earned revenues considered deferred inflows of resources in fund statements	334,250
Net pension liability - LGERS	(3,156,702)
Total pension liability - LEO	(2,775,271)
Total OPEB liability	(10,778,364)
Deferred inflows of resources related to pensions are not reported in the funds	(394,284)
Some liabilities, including long-term debt and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	<u>(28,252,901)</u>
Net position of governmental activities	<u><u>\$ 130,078,969</u></u>

Town of Kernersville, North Carolina
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

Exhibit 4
(3 pages)

	Major Funds				Total Governmental Funds
	General Fund	Public Works Facility Capital Projects Ordinance Fund	Fire Department Facility Capital Projects Ordinance Fund	Non-major Governmental Funds	
Revenues:					
Ad valorem taxes	\$ 16,242,913	\$ -	\$ -	\$ -	\$ 16,242,913
Other taxes and licenses	121,867	-	-	161,720	283,587
Unrestricted intergovernmental	7,977,157	-	-	-	7,977,157
Restricted intergovernmental	1,904,276	-	-	158,000	2,062,276
Penalties and interest	158,626	4,555	423	2,409	166,013
Contributions and donations	1,016,586	-	-	16,543	1,033,129
Other general revenues	90,143	-	-	-	90,143
Functionally related revenues	2,732,960	-	-	-	2,732,960
Total revenues	30,244,528	4,555	423	338,672	30,588,178
Expenditures:					
Current:					
General government	4,763,809	-	-	-	4,763,809
Public safety	14,790,643	-	3,009,743	60,395	17,860,781
Public service	7,019,972	3,524,717	-	-	10,544,689
Cultural and recreational	1,999,897	-	-	103,496	2,103,393
Debt service:					
Principal	2,382,369	342,000	345,000	75,952	3,145,321
Interest and other charges	343,933	99,030	133,834	3,144	579,941
Total expenditures	31,300,623	3,965,747	3,488,577	242,987	38,997,934
Revenues over (under) expenditures	(1,056,095)	(3,961,192)	(3,488,154)	95,685	(8,409,756)
Other financing sources (uses):					
Transfers from other funds	125,360	547,100	-	34,242	706,702
Transfers to other funds	(847,921)	-	-	(79,360)	(927,281)
Installment purchase obligations issued	3,142,035	-	6,900,000	-	10,042,035
Sale of capital assets	60,812	-	-	-	60,812
Total other financing sources (uses)	2,480,286	547,100	6,900,000	(45,118)	9,882,268
Net change in fund balances	1,424,191	(3,414,092)	3,411,846	50,567	1,472,512
Fund balances, beginning	12,781,573	3,425,246	279,842	406,500	16,893,161
Fund balances, ending	\$ 14,205,764	\$ 11,154	\$ 3,691,688	\$ 457,067	\$ 18,365,673

Town of Kernersville, North Carolina
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

Exhibit 4
(3 pages)

**Reconciliation of the Statement of Revenues,
Expenditures, and Changes in Fund Balances -
Governmental Funds to the Statement of Activities**

Total net change in fund balances - total governmental funds \$ 1,472,512

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

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

Capital outlay expenditures which were capitalized	\$ 9,551,168	
Depreciation expense for governmental assets	<u>(4,132,596)</u>	5,418,572

Cost of capital asset disposed of during the year, not recognized on modified accrual basis.

Proceeds on disposal of fixed assets under modified accrual basis	60,812	
Gain on sale of fixed assets recognized under full accrual basis	<u>(60,812)</u>	-

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities. 766,451

Benefit payments paid and administrative expense for the Law Enforcement Officers Separation Allowance are not included on the Statement of Activities 88,037

OPEB benefit payments and administrative costs made in the current fiscal year are not included on the Statement of Activities 291,974

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Amount of donated assets	2,034,496	
Change in unavailable revenue, property tax receivable	(566)	
Change in accrued interest receivable on property taxes	<u>(2,648)</u>	2,031,282

Town of Kernersville, North Carolina
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2018

Exhibit 4
(3 pages)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

New installment purchase obligations issued	\$ (10,042,035)	
Principal payments on long-term debt	3,145,321	
Change in accrued interest payable	<u>81,947</u>	\$ (6,814,767)

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in compensated absences	(64,629)	
OPEB plan expense	(793,030)	
Pension expense	<u>(1,260,932)</u>	(2,118,591)

Change in net position of internal service funds determined to be governmental-type.

107,332

Total changes in net position of governmental activities

\$ 1,242,802

Town of Kernersville, North Carolina
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2018

Exhibit 5
(2 pages)

	Budgeted Amounts		Actual Amounts	Variance with Final
	Original	Final		Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 16,026,757	\$ 16,026,757	\$ 16,242,913	\$ 216,156
Other taxes and licenses	124,561	124,561	121,867	(2,694)
Unrestricted intergovernmental	7,474,575	7,474,575	7,977,157	502,582
Restricted intergovernmental	1,353,300	2,179,134	1,904,276	(274,858)
Penalties and interest	83,768	121,206	140,556	19,350
Contributions and donations	962,420	1,032,420	1,016,586	(15,834)
Other general revenues	30,500	109,280	90,143	(19,137)
Functionally related revenues	2,771,531	2,994,540	2,732,960	(261,580)
Total revenues	28,827,412	30,062,473	30,226,458	163,985
Expenditures:				
Current:				
General government	4,816,265	5,482,840	5,147,334	335,506
Public safety	15,348,227	16,475,462	15,761,213	714,249
Public service	7,282,162	7,975,772	7,245,543	730,229
Cultural and recreational	2,317,009	2,760,012	2,202,818	557,194
Debt service	943,715	943,715	943,715	-
Total expenditures	30,707,378	33,637,801	31,300,623	2,337,178
Revenues over (under) expenditures	<u>(1,879,966)</u>	<u>(3,575,328)</u>	<u>(1,074,165)</u>	<u>2,501,163</u>
Other financing sources (uses):				
Transfers from other funds	48,600	125,360	125,360	-
Transfers to other funds	(1,265,669)	(1,556,029)	(1,556,029)	-
Installment purchase obligations issued	3,022,035	3,142,035	3,142,035	-
Sale of capital assets	75,000	75,000	60,812	(14,188)
Total other financing sources (uses)	1,879,966	1,786,366	1,772,178	(14,188)
Revenues and other financing sources over (under) expenditures and other financing uses	-	(1,788,962)	698,013	2,486,975
Fund balance appropriated	-	1,788,962	-	(1,788,962)
Revenues, other financing sources and appropriated fund balance over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	698,013	<u>\$ 698,013</u>

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

Town of Kernersville, North Carolina
Statement of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2018

Exhibit 5
(2 pages)

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Fund balance, beginning			\$ 11,757,917	
Fund balance, ending			12,455,930	
A legally budgeted capital reserve fund is consolidated into the General Fund for reporting purposes:				
Fund balance, beginning			1,023,656	
Investment earnings			18,070	
Net transfers from other funds			708,108	
Fund balance, ending (Exhibit 4)			\$ 14,205,764	

Town of Kernersville, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2018

Exhibit 6

	<u>Major Enterprise Fund</u>	<u>Internal Service Fund</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,601,826	\$ 1,089,741
Total current assets	<u>1,601,826</u>	<u>1,089,741</u>
Noncurrent assets:		
Capital assets, net of depreciation	<u>991,248</u>	<u>-</u>
Total noncurrent assets	<u>991,248</u>	<u>-</u>
Total assets	<u>2,593,074</u>	<u>1,089,741</u>
DEFERRED OUTFLOWS OF RESOURCES		
Pension deferrals	<u>71,311</u>	<u>-</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	78,898	-
Claims and judgments	-	146,168
Accrued interest payable	6,372	-
Current portion of long-term liabilities	<u>123,568</u>	<u>-</u>
Total current liabilities	<u>208,838</u>	<u>146,168</u>
Noncurrent liabilities:		
Net pension liability	96,584	-
Total OPEB liability	219,967	-
Noncurrent portion of long-term debt	<u>167,542</u>	<u>-</u>
Total noncurrent liabilities	<u>484,093</u>	<u>-</u>
Total liabilities	<u>692,931</u>	<u>146,168</u>
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals	<u>10,846</u>	<u>-</u>
NET POSITION		
Net investment in capital assets	733,649	-
Unrestricted	<u>1,226,959</u>	<u>943,573</u>
Total net position	<u>\$ 1,960,608</u>	<u>\$ 943,573</u>

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

Town of Kernersville, North Carolina
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
Year Ended June 30, 2018

Exhibit 7

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
Operating revenues		
Charges for services	\$ 1,074,193	\$ 307,000
Total operating revenues	<u>1,074,193</u>	<u>307,000</u>
Operating expenses		
Personnel services	639,321	-
Depreciation	182,681	-
Other current charges	632,048	-
Claims incurred	-	137,660
Stop-loss coverage	-	63,100
Administration	-	9,000
Total operating expenses	<u>1,454,050</u>	<u>209,760</u>
Operating income (loss)	(379,857)	97,240
Nonoperating revenues (expenses)		
Investment earnings	15,648	10,092
Interest and other charges	(6,054)	-
Total nonoperating revenues (expenses)	<u>9,594</u>	<u>10,092</u>
Income before transfers	(370,263)	107,332
Transfers		
Transfers from other funds	<u>220,579</u>	-
Change in net position	(149,684)	107,332
Total net position, beginning, adjusted	<u>2,110,292</u>	<u>836,241</u>
Total net position, ending	<u>\$ 1,960,608</u>	<u>\$ 943,573</u>

Town of Kernersville, North Carolina
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2018

Exhibit 8
(2 pages)

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
Cash flows from operating activities:		
Cash received from customers	\$ 1,075,920	\$ -
Cash paid for goods and services	(622,223)	(63,100)
Cash paid to or on behalf of employees for services	(534,290)	-
Receipts from other funds	-	307,000
Payment of claims	-	(54,002)
Payment of fee to administrator	-	(9,000)
	<u>(80,593)</u>	<u>180,898</u>
Net cash (used) provided by operating activities		
Cash flows from noncapital financing activities		
Transfers in from other funds	<u>220,579</u>	<u>-</u>
	<u>220,579</u>	<u>-</u>
Net cash provided by noncapital financing activities		
Cash flows from capital and related financing activities		
Acquisition and construction of capital assets	(6,300)	-
Principal paid on installment debt	(114,424)	-
Interest paid on installment debt	(4,118)	-
	<u>(124,842)</u>	<u>-</u>
Net cash used by capital and related financing activities		
Cash flows from investing activities		
Investment earnings	<u>15,648</u>	<u>10,092</u>
	<u>15,648</u>	<u>10,092</u>
Net cash provided by investing activities		
	<u>30,792</u>	<u>190,990</u>
Net increase in cash and cash equivalents		
Cash and cash equivalents, beginning	<u>1,571,034</u>	<u>898,751</u>
	<u>\$ 1,601,826</u>	<u>\$ 1,089,741</u>
Cash and cash equivalents, ending		

Town of Kernersville, North Carolina
Statement of Cash Flows
Proprietary Funds
Year Ended June 30, 2018

Exhibit 8
(2 pages)

	<u>Enterprise Fund</u>	<u>Internal Service Fund</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income (loss)	\$ (379,857)	\$ 97,240
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	182,681	-
Pension expense	28,972	-
Increase in OPEB liability	99,588	-
Change in assets, deferred outflows of resources, and liabilities:		
Accounts receivable, net	1,727	-
Accounts payable and accrued liabilities	9,825	-
Claims and judgments	-	83,658
Accrued vacation pay	4,973	-
Deferred outflows of resources for pensions	(28,502)	-
	<u>(80,593)</u>	<u>180,898</u>
Net cash (used) provided by operating activities	<u>\$ (80,593)</u>	<u>\$ 180,898</u>

Notes to Financial Statements

1. Summary of Significant Accounting Policies

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

A. Reporting entity

The Town of Kernersville (the "Town") is a municipal corporation which is governed by an elected mayor and a five-member Board of Aldermen. As required by generally accepted accounting principles, these financial statements present all funds, agencies, boards, commissions and authorities which are controlled by or are financially dependent upon the Town.

B. Basis of presentation

Government-wide statements: The statement of net position and the statement of activities display information about the financial activities of the overall government. Eliminations have been made to minimize the effect of internal activities upon revenues and expenses; however, interfund services provided and used are not eliminated in the process of consolidation. 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 each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs, and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The effects of interfund activity have been eliminated from the government-wide financial statements.

Fund financial statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category - *governmental* and *proprietary* - are presented. The emphasis of fund financial statements is on major governmental funds and enterprise funds, each displayed in a separate column. All remaining governmental 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. Nonoperating revenues, such as investment earnings, result from nonexchange transactions or ancillary activities.

The Town reports the following major governmental funds:

General Fund. The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, state and federal grants, and various other taxes and licenses. The primary expenditures are for public safety, streets and maintenance, sanitation and general government services. Additionally, the Town has legally adopted a Capital Reserve Fund. Under GASB 54 guidance, the Capital Reserve Fund is consolidated in the General Fund. The budgetary comparison for the Capital Reserve

Town of Kernersville, North Carolina
Notes to Financial Statements

Fund has been included in the supplementary information. The Capital Reserve Fund is used to account for resources to be used for future major capital purchases or projects.

Capital Project Funds. The Town reports two major Capital Project funds. The Public Works Facility Capital Projects Ordinance Fund accounts for the financial resources and uses for the acquisition or construction of assets and improvements related to the Public Works Facility. The Fire Department Facility Capital Projects Ordinance Fund accounts for the financial resources and uses for the acquisition or construction of assets and improvements related to the Fire Department Facility.

The Town reports the following major enterprise fund:

Stormwater Fund. The purpose of the Stormwater Enterprise Fund is to finance the operations of the Stormwater Division, which was created in response to state and federal mandates, as well as a desire of the citizenry to ensure that the Town remains a quality community, especially in regard to environmental stewardship.

The Town reports the following non-major governmental funds:

Special Revenue Funds. The Town reports four special revenue funds. The Occupancy Tax Fund accounts for the revenue generated by the tax charged on hotel and motel rooms to be used to promote travel and tourism, and tourism-related expenditures; the Emergency Telephone System Fund accounts for 911 system subscriber fees and levies; the Contributions Fund accounts for donations used to support drug education programs; and the Law Enforcement Forfeitures Fund accounts for restricted proceeds resulting from the sale of properties seized in criminal investigations.

Capital Project Funds. The Town reports one non-major Capital Project funds. The Kerner Mill Greenway Capital Projects Ordinance Fund accounts for the financial resources and uses for the acquisition or construction of assets and improvements related to the Kerner Mill Greenway.

Additionally, the Town reports the following non-major proprietary funds:

Internal Service Fund. The Internal Service fund accounts for operations that provide services to other departments or agencies of the Town, or to other governments, on a cost-reimbursement basis. The Town has one Internal Service Fund. The Self-Insurance Fund accounts for workers' compensation insurance provided for the Town's employees.

C. Measurement focus and basis of accounting

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

Government-wide and proprietary fund financial statements: The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus 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. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Town of Kernersville, North Carolina
Notes to Financial Statements

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

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

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

Grant revenues which are unearned at year end are recorded as unearned 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 are both restricted and unrestricted net positions 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 Special Revenue Funds, and the Enterprise Fund. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for the Capital Project Funds.

All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds and at the object level for multi-year funds. The Town Manager is authorized to make budget amendments to all departments and line items within the same fund, and is required to have such amendments entered into the minutes of the next regular meeting of the Board of Aldermen. During the year, amendments to the original budget were necessary, the effects of which were not material.

E. Assets, liabilities, deferred outflows/inflows of resources and net position or fund balance

(1) Deposits and investments

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

Town of Kernersville, North Carolina

Notes to Financial Statements

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, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

(2) Cash and cash equivalents

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

(3) Restricted assets

Performance bonds in the amount of \$579,554 are classified as restricted cash on the balance sheet. The Town requires developers/contractors to pay a performance bond to guarantee successful performance on certain construction projects. Once the Town has ensured that the work has been satisfactorily completed, the performance bonds are released. In addition, there is \$5,974,098 of unexpended debt proceeds that are restricted to the purpose for which the debt was issued.

(4) Ad valorem taxes receivable

In accordance with state law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. These taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. The taxes levied are based on the assessed values as of January 1, 2017. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

(5) Allowances for doubtful accounts

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

(6) Prepaid assets

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

(7) Capital assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain amount and an estimated useful life in excess of three years. Minimum capitalization costs are as follows: buildings and improvements - \$20,000; infrastructure - \$100,000; and furniture, equipment and vehicles - \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets received prior to July 1, 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 historical cost. General infrastructure assets acquired prior to July 1, 2003 consist of road network 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 costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Town of Kernersville, North Carolina
Notes to Financial Statements

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	50 years
Land improvements	25 years
Infrastructure	40 years
Furniture, equipment, and heavy equipment	5 to 10 years
Vehicles	6 years

(8) Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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 meet the criterion for this category: pension deferrals for the 2018 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criterion for this category: property taxes receivable and pension deferrals.

(9) Long-term obligations

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

(10) Compensated absences

The vacation policy of the Town provides for a maximum accumulation of 240 hours of earned vacation leave based on an employee's years of service, five years or greater. Such leave is fully vested when earned. Employees that have 0 to 4 years of experience cannot accrue any vacation. At the end of each calendar year, any vacation balance in excess of the amount that an employee could accrue in a 24-month period is converted to sick leave. Any accrued vacation not converted to sick leave in excess of the maximum accumulation shall be cancelled.

For the Town's government-wide funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but 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 accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

(11) Net position/fund balances

Net position

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

Town of Kernersville, North Carolina
Notes to Financial Statements

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.

Prepaid Assets - portion of fund balance that is not an available resource because it represents the year-end balance of costs applicable to future accounting periods, 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.

Restricted for Stabilization by State Statute - portion of fund balance that is restricted by state statute [G.S. 159-8(a)].

Restricted for Capital Equipment - portion of fund balance that is restricted due to unexpended installment purchases for the purchase of capital assets.

Restricted for Tourism - portion of fund balance restricted by occupancy tax revenues for tourism-related expenditures.

Restricted for Public Safety - portion of fund balance that is restricted by revenue source for certain emergency telephone system expenditures and for law enforcement expenditures.

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

Committed for Capital Projects - portion of fund balance that is set aside by the Board for capital projects.

Assigned fund balance - portion of fund balance that the Town of Kernersville intends to use for specific purposes.

Subsequent year's expenditures - portion of total fund balance available for appropriation that has been designated in the next year's budget ordinance, as approved by the Town's governing body.

Unassigned fund balance - portion of fund balance that has not been restricted, committed, or assigned to specific purposes.

The Town of Kernersville has a revenue-spending practice that provides guidance for programs with multiple revenue sources. The Finance Officer will use resources in the following hierarchy: bond and installment financing proceeds, federal funds, state funds, local non-town funds, town funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in order by committed fund balance, assigned fund balance, and finally unassigned fund balance. The Finance Officer has the authority to deviate from this practice, if it is in the best interest of the Town.

The Town of Kernersville has adopted a minimum fund balance policy for the General Fund, which instructs management to conduct business of the Town in such a manner that available fund balance is at least equal to or greater than 20% of budgeted expenditures.

Town of Kernersville, North Carolina
Notes to Financial Statements

(12) Pensions

For purposes of measuring the net pension asset or liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town'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.

2. Detail Notes on All Funds

A. Assets

(1) Deposits

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

At June 30, 2018, the Town's deposits had a carrying amount of \$7,767,833 and a bank balance of \$8,600,428. Of the bank balance, \$750,000 was covered by federal depository insurance and the remainder was covered by collateral held under the Pooling Method.

At June 30, 2018, the Town's petty cash fund totaled \$4,900.

(2) Investments

At June 30, 2018, the Town's investment balances were as follows:

<u>Investments by Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value at 6/30/2018</u>	<u>Maturity</u>	<u>Rating</u>
NC Capital Management Trust - Government Portfolio	Amortized Cost	\$ 5,379,457	N/A	AAAm
NC Capital Management Trust - Term Portfolio	Fair Value Level 1	<u>7,063,926</u>	0.09 years	Unrated
Total		<u>\$ 12,443,383</u>		

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

Town of Kernersville, North Carolina
Notes to Financial Statements

Level of fair value hierarchy:

Level 1 - Debt securities valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

The Town does not have a formal investment policy.

Credit Risk. The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town's investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the NC Capital Management Trust Governmental Portfolio carried a credit rating of AAAM by Standard & Poor's as of June 30, 2018. The Town's investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high-grade money market instruments permitted under G.S. 159-30 as amended.

(3) Due from other governments

Amounts due from other governments consist of the following:

	<u>Governmental Activities</u>
General fund:	
Sales and use tax distribution	\$ 1,362,088
Sales tax refunds	383,980
Utilities franchise, video programming, solid waste, and telecommunications tax	437,538
Rental vehicle tax	7,181
Alcohol beverage tax	124,922
NCVTS tag and tax proceeds	50,152
Miscellaneous grant reimbursements	<u>690</u>
Total general fund	2,366,551
Occupancy tax fund:	
Occupancy tax reimbursement	<u>13,297</u>
	<u>\$ 2,379,848</u>

(4) Receivables - allowance for doubtful accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2018 are net of the following allowances for doubtful accounts:

General fund:	
Taxes receivable	<u>\$ 73,000</u>

Town of Kernersville, North Carolina
Notes to Financial Statements

(5) Capital assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 76,361,136	\$ 3,441,886	\$ -	\$ 79,803,022
Construction in progress	<u>3,859,954</u>	<u>1,912,519</u>	<u>(3,608,921)</u>	<u>2,163,552</u>
Total capital assets not being depreciated	<u>80,221,090</u>	<u>5,354,405</u>	<u>(3,608,921)</u>	<u>81,966,574</u>
Capital assets being depreciated:				
Buildings and improvements	12,622,225	5,576,731	-	18,198,956
Land improvements	3,635,003	-	-	3,635,003
Infrastructure	99,647,796	779,306	-	100,427,102
Equipment and heavy equipment	12,421,285	2,920,922	(47,553)	15,294,654
Vehicles	<u>4,104,986</u>	<u>563,221</u>	<u>(245,548)</u>	<u>4,422,659</u>
Total capital assets being depreciated	<u>132,431,295</u>	<u>9,840,180</u>	<u>(293,101)</u>	<u>141,978,374</u>
Less accumulated depreciation for:				
Buildings and improvements	6,078,177	343,230	-	6,421,407
Land improvements	1,873,049	164,507	-	2,037,556
Infrastructure	46,805,998	2,364,908	-	49,170,906
Equipment and heavy equipment	9,507,108	866,901	(47,533)	10,326,476
Vehicles	<u>2,743,181</u>	<u>393,050</u>	<u>(244,568)</u>	<u>2,891,663</u>
Total accumulated depreciation	<u>67,007,513</u>	<u>\$ 4,132,596</u>	<u>\$ (292,101)</u>	<u>70,848,008</u>
Total capital assets being depreciated, net	<u>65,423,782</u>			<u>71,130,366</u>
Governmental activity capital assets, net	<u>\$ 145,644,872</u>			<u>\$ 153,096,940</u>

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

General government	\$ 176,481
Public safety	1,064,413
Public service	2,626,696
Cultural and recreational	<u>265,006</u>
Total depreciation expense	<u>\$ 4,132,596</u>

Town of Kernersville, North Carolina
Notes to Financial Statements

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type activities:				
Stormwater fund:				
Capital assets not being depreciated:				
Construction in progress	\$ 19,015	\$ -	\$ -	\$ 19,015
Total capital assets not being depreciated	<u>19,015</u>	<u>-</u>	<u>-</u>	<u>19,015</u>
Capital assets being depreciated:				
Buildings and improvements	50,548	-	-	50,548
Land improvements	137,450	-	-	137,450
Infrastructure	137,185	-	-	137,185
Equipment and heavy equipment	1,222,706	6,300	-	1,229,005
Vehicles	99,633	-	-	99,633
Total capital assets being depreciated	<u>1,647,522</u>	<u>6,300</u>	<u>-</u>	<u>1,653,821</u>
Less accumulated depreciation for:				
Buildings and improvements	1,264	1,011	-	2,275
Land improvements	9,808	9,172	-	18,980
Infrastructure	34,583	3,430	-	38,013
Equipment and heavy equipment	395,404	155,344	-	550,748
Vehicles	57,848	13,724	-	71,572
Total accumulated depreciation	<u>498,907</u>	<u>\$ 182,681</u>	<u>\$ -</u>	<u>681,588</u>
Total capital assets being depreciated, net	<u>1,148,615</u>			<u>972,233</u>
Stormwater fund capital assets, net	<u>\$ 1,167,630</u>			<u>\$ 991,248</u>

B. Liabilities

(1) Accounts payable and accrued liabilities

Accounts payable and accrued liabilities at June 30, 2018, were as follows:

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total</u>
Payable to vendors and others	\$ 985,408	\$ 73,178	\$ 1,058,586
Accrued payroll and related liabilities	<u>77,254</u>	<u>5,720</u>	<u>82,974</u>
Total accounts payable and accrued liabilities	<u>\$ 1,062,662</u>	<u>\$ 78,898</u>	<u>\$ 1,141,560</u>

Town of Kernersville, North Carolina
Notes to Financial Statements

(2) Pension plan and postemployment obligations

(a) **Local Governmental Employees' Retirement System**

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Kernersville 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's contractually required contribution rate for the year ended June 30, 2018, was 8% of compensation for law enforcement officers and 7.25% 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 \$960,028 for the year ended June 30, 2018.

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

Town of Kernersville, North Carolina
Notes to Financial Statements

Pension liabilities, pension expense, and deferred outflows of resources and deferred inflows of resources related to pensions. At June 30, 2018, the Town reported a liability of \$3,253,286 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2017. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2016. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2017, the Town's proportion was 0.213%, which was a decrease of 0.003% from its proportion measured as of June 30, 2016.

For the year ended June 30, 2018, the Town recognized pension expense of \$975,886. At June 30, 2018, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 187,419	\$ 92,090
Changes of assumptions	464,614	-
Net difference between projected and actual earnings on pension plan investments	789,902	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	273,225
Town contributions subsequent to the measurement date	<u>960,028</u>	<u>-</u>
Total	<u>\$ 2,401,963</u>	<u>\$ 365,315</u>

\$960,028 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30

2019	\$ 46,979
2020	868,757
2021	426,062
2022	(265,177)
2023	-
Thereafter	-

Actuarial assumptions. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.20 percent, net of pension plan investment expense, including inflation

Town of Kernersville, North Carolina
Notes to Financial Statements

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, 2016 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Long-Term Expected Target Allocation</u>	<u>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>100.0%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2016 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 7.20%. 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 Kernersville, North Carolina
Notes to Financial Statements

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 7.20 percent, as well as what the Town's proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.20 percent) or one percentage point higher (8.20 percent) than the current rate:

	<u>1% Decrease (6.20%)</u>	<u>Discount Rate (7.20%)</u>	<u>1% Increase (8.20%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 9,766,439	\$ 3,253,286	\$ (2,183,140)

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

(b) Law Enforcement Officers Special Separation Allowance

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

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

Retirees receiving benefits	8
Terminated plan members entitled to, but not yet receiving benefits	-
Active plan members	<u>68</u>
Total	<u><u>76</u></u>

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

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

Actuarial assumptions. The entry age actuarial cost method was used in the December 31, 2016 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.16 percent

The discount rate is based on the weekly average of the Bond Buyer General Obligation 20-Year Municipal Bond Index determined at the end of each month for the year ending December 31, 2017.

Town of Kernersville, North Carolina
Notes to Financial Statements

Mortality rates are based on the RP-2014 Series Mortality tables with adjustments for mortality improvements based on Scale AA.

Change in actuarial assumptions. On the prior Measurement Date (December 31, 2016), the Municipal Bond Index Rate, on which the discount rate is based, was 3.86%. Since the Prior Measurement Date, the Municipal Bond Index Rate has decreased to 3.16% as of the Measurement Date (December 31, 2017). This resulted in a \$160,733 increase in the Total Pension Liability.

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 \$168,759 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, 2018, the Town reported a total pension liability of \$2,775,271. The total pension liability was measured as of December 31, 2017 based on a December 31, 2016 actuarial valuation. The total pension liability was rolled forward to December 31, 2017 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2018, the Town recognized pension expense of \$217,680.

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 43,810	\$ -
Changes of assumptions	132,731	39,815
Benefit payments and plan administrative expense made subsequent to the measurement date	<u>88,037</u>	<u>-</u>
Total	<u>\$ 264,578</u>	<u>\$ 39,815</u>

The \$264,578 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ending June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ending June 30

2019	\$ 9,880
2020	9,880
2021	9,880
2022	9,880
2023	295
Thereafter	-

Sensitivity of the Town’s total pension liability to changes in the discount rate. The following presents the Town’s total pension liability calculated using the discount rate of 3.16 percent, as well as what the Town’s total pension liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.16 percent) or 1 percentage point higher (4.16 percent) than the current rate:

Town of Kernersville, North Carolina
Notes to Financial Statements

	<u>1% Decrease</u> <u>(2.16%)</u>	<u>Discount</u> <u>Rate</u> <u>(3.16%)</u>	<u>1% Increase</u> <u>(4.16%)</u>
Total pension liability	\$ 3,007,242	\$ 2,775,271	\$ 2,562,826

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

	<u>2018</u>
Beginning balance	\$ 2,539,929
Service cost	95,531
Interest on the total pension liability	94,784
Difference between expected and actual experience	53,053
Changes of assumptions or other inputs	160,733
Benefit payments	<u>(168,759)</u>
Ending balance of the total pension liability	<u>\$ 2,775,271</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, 2016 valuation were based on the results of an actuarial experience study for the five year period ending December 31, 2014.

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	\$ 975,886	\$ 217,680	\$ 1,193,566
Pension liability	3,253,286	2,775,271	6,028,556
Proportionate share of net pension liability	0.213%	n/a	

Deferred outflows of resources

Differences between expected and actual experience	187,419	43,810	231,229
Changes of assumptions	464,614	132,731	597,345
Net difference between projected and actual earnings on plan investments	789,902	-	789,902
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	960,028	88,037	1,048,065

Deferred inflows of resources

Differences between expected and actual experience	92,090	-	92,090
Changes of assumptions	-	39,815	39,815
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	273,225	-	273,225

Town of Kernersville, North Carolina
Notes to Financial Statements

(d) Supplemental Retirement Income Plan

Plan description. The Town of Kernersville contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Additionally, the Town has elected to include all permanent, full-time employees under this plan. The Supplemental Retirement Income Plan is included in the Comprehensive Annual Financial Report (CAFR) for the state of North Carolina. The state’s CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k) plan that includes the Supplemental Retirement Income Plan. 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 5% of each sworn law enforcement officer’s salary, and all amounts contributed are vested immediately. Participants may also make voluntary contributions to the Plan.

The Town made contributions of \$178,699 for the reporting year. No amounts were forfeited.

(e) Other Postemployment Benefits

(i) Healthcare benefits

Plan description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan). This plan provides postemployment healthcare benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees’ Retirement System. For the Town to contribute 100% of the employer’s contribution toward health care premiums, the retiree must have completed at least 25 years of creditable service with the Town. To receive 75% of the employer’s contribution, the retiree must have completed at least 20 years of creditable service with the Town. To receive 50% of the employer’s contribution, the retiree must have completed at least 15 years of creditable service with the Town. Prior to June 30, 2005, employees qualified for full insurance benefits after ten years of creditable service with the Town. The Town pays the cost of coverage for these benefits through private insurers. Also, the Town’s retirees can purchase coverage for their dependents at the Town’s group rates. The Town’s Board of Aldermen may amend the benefit provisions. A separate report was not issued for the plan. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75.

Membership of the HCB Plan consisted of the following at June 30, 2018, the date of the latest actuarial valuation:

	<u>General Employees</u>	<u>Law Enforcement Officers</u>
Retirees and dependents receiving benefits	27	10
Terminated plan members entitled to but not yet receiving benefits	-	-
Active plan members	<u>180</u>	<u>68</u>
Total	<u><u>207</u></u>	<u><u>78</u></u>

(ii) Total OPEB liability

The Town’s total OPEB liability of \$10,998,331 was measured as of June 30, 2018 and was determined by an actuarial valuation as of that date.

Town of Kernersville, North Carolina
Notes to Financial Statements

Actuarial assumptions and other inputs. The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement unless otherwise specified:

Salary increases	3.00 percent, including inflation and productivity factor
Discount rate	3.62 percent
Healthcare cost trend rates	Medical & prescription – 6.50% initially, trending down to 4.50% ultimate

The discount rate is based on the yield of a 20-year municipal bond Aa index as of the measurement date.

Changes in the total OPEB liability

	<u>2018</u>
Beginning balance	\$ 10,481,091
Service cost	419,838
Interest on the total pension liability	389,376
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	-
Benefit payments	<u>(291,974)</u>
Ending balance of the total OPEB liability	<u>\$ 10,998,331</u>

There were no amounts related to changes in assumptions and other inputs as the valuation date and measurement date are both June 30, 2018.

Mortality rates were based on the RP-2000 Tables, projected to 2028 with Scale AA.

Sensitivity of the total OPEB liability to changes in the discount rate. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower (2.62 percent) or 1 percentage point higher (4.62 percent) than the current rate:

	<u>1% Decrease (2.62%)</u>	<u>Discount Rate (3.62%)</u>	<u>1% Increase (4.62%)</u>
Total OPEB liability	<u>\$ 12,303,005</u>	<u>\$ 10,998,331</u>	<u>\$ 9,849,472</u>

Sensitivity of the total OPEB liability to changes in the healthcare cost trend rates. The following presents the total OPEB liability of the Town, as well as what the Town's total OPEB liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	<u>1% Decrease (3.50%)</u>	<u>Discount Rate (4.50%)</u>	<u>1% Increase (5.50%)</u>
Total OPEB liability	<u>\$ 9,583,228</u>	<u>\$ 10,998,331</u>	<u>\$ 12,697,344</u>

Town of Kernersville, North Carolina
Notes to Financial Statements

OPEB expense and deferred outflows of resources and deferred inflows of resources related to OPEB

For the year ended June 30, 2018, the Town recognized OPEB expense of \$809,214. At June 30, 2018, the Town did not report any deferred outflows of resources or deferred inflows of resources related to OPEB as the measurement date and valuation date were both June 30, 2018.

3. Other employment benefits

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

4. Deferred outflows and inflows of resources

Deferred outflows of resources is comprised solely of pension plan deferrals in the current fiscal year in the amount of \$2,666,541.

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

Taxes receivable, net (General Fund)	\$	334,250
Pension deferrals		405,130

5. 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, illnesses of employees and natural disasters. The Town has general liability, auto and property coverages under a fully insured plan through Travelers Insurance. The Town's auto liability coverage has limits up to \$1,000,000 per occurrence, and the general liability coverage has limits up to \$3,000,000 per occurrence, depending on the type of loss. Property coverage is limited up to the total insurance values of the property policy.

The Town is self-funded for workers' compensation insurance. All claims are administered by a third-party administrator. The third-party administrator pays all bills for compensable claims and files documents required by the North Carolina Industrial Commission by personnel licensed to adjust workers' compensation claims in the state of North Carolina. Liabilities of the fund are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The estimate of the claims liability also includes other claim adjustment expenses, regardless of whether allocated to specific claims. Estimated recoveries from salvage or subrogation, for example, are another component of the claims liability estimate. The Town is insured by Midwest Employers Casualty Company for workers' compensation claims in excess of \$550,000 up to statutory limits.

Town of Kernersville, North Carolina
Notes to Financial Statements

Changes in the balances of workers' compensation claims liabilities during the past two years are as follows:

	<u>Year Ended June 30,</u>	
	<u>2018</u>	<u>2017</u>
Unpaid claims, beginning of fiscal year	\$ 62,510	\$ 24,774
Incurred claims (including IBNR)	137,660	223,472
Claim payments	<u>(54,002)</u>	<u>(185,736)</u>
Unpaid claims, end of fiscal year	<u>\$ 146,168</u>	<u>\$ 62,510</u>

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$250,000 individually. The remainder of the Town employees are also bonded under a blanket policy for \$250,000.

The Town carries flood insurance through Travelers Insurance. The Town's flood coverage limit is \$1,000,000 with a \$50,000 deductible. The Town has one structure, a recycling center, within a FEMA-designated "A" zone (an area close to a river, lake, or stream). The Town elected not to purchase excess flood coverage for that structure due to the unlikelihood that the structure would be damaged if flooding occurred.

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

6. Claims and judgments

Various claims and legal actions are pending against the Town, and it is not possible at this time to predict their outcome. However, in the opinion of management and the Town attorney, ultimate resolutions will not have a material, adverse impact on the Town's financial position.

7. Long-term obligations

(a) Installment purchase agreements - equipment and construction

The Town has entered into installment purchase agreements for the purchase and/or improvement of personal property including vehicles and equipment, as well as real property consisting of land and building improvements. The title to these assets is held in the name of the Town, and security interest has been granted to the financing institution. The installment purchase notes payable at June 30, 2018 are as follows:

Serviced by the General Fund:

Installment purchase note payable in the original amount of \$1,218,500 for the purchase of various land and buildings. The agreement requires a total of 15 annual variable payments with a fixed principal component of \$81,233, plus interest at 2.25%. Payments are due beginning August 20, 2012, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on August 20, 2026.	\$ 731,100
Installment purchase note payable in the original amount of \$1,000,000 for the purchase of a fire ladder truck. The agreement requires a total of 12 annual fixed payments of \$93,905, including interest at 2.25%. Payments are due beginning November 8, 2013, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on November 8, 2024.	601,951

Town of Kernersville, North Carolina
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Installment purchase note payable in the original amount of \$704,650, of which the General Fund has been allocated \$479,650 for the purchase of various vehicles and equipment. The agreement requires a total of five annual fixed payments of \$98,194, including interest at 1.18%. Payments are due beginning September 12, 2014, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on September 12, 2018.	\$ 95,983
Installment purchase note payable in the original amount of \$475,000 for the purchase of a fire pumper truck. The agreement requires a total of ten annual fixed payments of \$51,843, including interest at 2.00%. Payments are due beginning December 17, 2014, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on December 17, 2023.	290,418
Installment purchase note payable in the original amount of \$1,146,900 for the purchase of a tract of land within the Town's limits. The agreement requires a total of 15 annual variable payments with a fixed principal component of \$76,460, plus interest at 2.63%. Payments are due beginning June 17, 2016, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on June 17, 2030.	917,520
Installment purchase note payable in the original amount of \$1,550,400 for the purchase of various vehicles and equipment. The agreement requires a total of five annual fixed payments of \$318,523, including interest at 1.36%. Payments are due beginning August 26, 2015, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on August 26, 2019.	624,268
Installment purchase note payable in the original amount of \$1,097,000 for building and land improvements. The agreement requires a total of 10 annual variable payments with a fixed principal component of \$109,700, plus interest at 1.98%. Payments are due beginning September 18, 2015, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on September 18, 2024.	767,900
Installment purchase note payable in the original amount of \$5,130,000 for building and land improvements for the Public Services Administration Facility. The agreement requires a total of 60 quarterly variable payments with a fixed principal component of \$85,500, plus interest at 2.050%. Payments are due beginning January 21, 2017, and quarterly thereafter, with a final payment of all outstanding principal and unpaid interest due on October 21, 2031.	4,617,000
Installment purchase note payable in the original amount of \$3,185,000 for equipment and paving improvements. The agreement requires a total of 40 quarterly variable payments with a fixed principal component of \$79,625, plus interest at 1.83%. Payments are due beginning January 21, 2017, and quarterly thereafter, with a final payment of all outstanding principal and unpaid interest due on October 21, 2026.	2,707,250
Installment purchase note payable in the original amount of \$475,000 for the purchase of a fire truck. The agreement requires a total of 40 quarterly fixed payments of \$12,963, including interest at 1.74%. Payments are due beginning December 15, 2016, and quarterly thereafter, with a final payment of all outstanding principal and unpaid interest due on September 15, 2026.	397,211

Town of Kernersville, North Carolina
Notes to Financial Statements

Installment purchase note payable in the original amount of \$921,500, of which the General Fund has been allocated \$571,500 for the purchase of various vehicles and equipment. The agreement requires a total of 20 quarterly fixed payments of \$29,587, including interest at 1.38%. Payments are due beginning October 25, 2016, with a final payment of all outstanding principal and unpaid interest due on July 25, 2021.	\$ 375,153
Installment purchase note payable in the original amount of \$6,900,000 for land purchase and construction of the Fire Station. The agreement requires a total of 60 quarterly variable payments with a fixed principal component of \$115,000, plus interest at 2.63%. Payments are due beginning December 18, 2017, and quarterly thereafter, with a final payment of all outstanding principal and unpaid interest due on September 18, 2032.	6,555,000
Installment purchase note payable in the original amount of \$1,552,000 for land purchase and construction of the Fire Station. The agreement requires a total of 40 quarterly variable payments with a fixed principal component of \$38,800, plus interest at 2.42%. Payments are due beginning December 18, 2017, and quarterly thereafter, with a final payment of all outstanding principal and unpaid interest due on September 18, 2027.	1,435,600
Installment purchase note payable in the original amount of \$1,290,035 for various vehicles and equipment. The agreement requires a total of 20 quarterly variable payments with a fixed principal component of \$64,502, plus interest at 1.91%. Payments are due beginning October 11, 2017, and quarterly thereafter, with a final payment of all outstanding principal and unpaid interest due on July 11, 2022.	1,096,530
Installment purchase note payable in the original amount of \$300,000 for the construction of Founders Körner Park. The agreement requires a total of 40 quarterly variable payments with a fixed principal component of \$7,500, plus interest at 3.18%. Payments are due beginning September 28, 2018, and quarterly thereafter, with a final payment of all outstanding principal and unpaid interest due on June 28, 2028.	<u>300,000</u>
Total	<u>\$ 21,512,884</u>

Serviced by the Stormwater Fund:

Installment purchase note payable in the original amount of \$704,650, of which the Stormwater Fund has been allocated \$225,000 for the purchase of a street sweeper. The agreement requires a total of five allocated annual fixed payments of \$46,062, including interest at 1.18%. Payments are due beginning September 12, 2014, and annually thereafter, with a final payment of all outstanding principal and unpaid interest due on September 12, 2018.	\$ 45,025
Installment purchase note payable in the original amount of \$921,500, of which the Stormwater Fund has been allocated \$350,000 for the purchase of a various equipment. The agreement requires a total of 20 quarterly fixed payments of \$18,120, including interest at 1.38%. Payments are due beginning October 25, 2016, with a final payment of all outstanding principal and unpaid interest due on July 25, 2021.	<u>229,752</u>
Total	<u>\$ 274,777</u>

Town of Kernersville, North Carolina
Notes to Financial Statements

Annual debt service payments of the installment purchases as of June 30, 2018 are as follows:

<u>Year Ending June 30</u>	<u>Governmental Activities</u>		<u>Business-Type Activities</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 2,523,554	\$ 465,190	\$ 115,186	\$ 3,351
2020	2,435,826	414,118	70,630	1,848
2021	2,126,764	364,034	71,609	868
2022	2,042,995	318,380	17,352	62
2023	1,823,747	274,828	-	-
2024 - 2028	7,257,008	804,812	-	-
2029 - 2033	<u>3,302,990</u>	<u>167,730</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 21,512,884</u>	<u>\$ 2,809,092</u>	<u>\$ 274,777</u>	<u>\$ 6,129</u>

(b) General obligation indebtedness

On July 29, 2014, the Town issued \$4,065,000 in General Obligation Refunding Bonds, Series 2014, as authorized by a resolution adopted by the Board of Aldermen on June 24, 2014 with final approval granted by the Local Government Commission of North Carolina (the "LGC"). The proceeds from these bonds were used to refund the Town's previously outstanding General Obligation Street Bonds, Series 2004, as well as pay certain fees and expenses incurred in connection with the sale and issuance of the bonds.

All general obligation bonds are collateralized by the full faith, credit and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2018 consist of the following individual issues:

Refunding Bonds, Series 2014; principal due annually on May 1 beginning May 1, 2015 in installments of \$405,000 through 2023 with a final principal installment of \$420,000 due on May 1, 2024; interest due November 1 and May 1 beginning November 1, 2014 at 2.15% per annum.

\$ 2,445,000

Annual debt service requirements to maturity for general obligation bonds are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 405,000	\$ 52,568	\$ 457,568
2020	405,000	43,860	448,860
2021	405,000	35,153	440,153
2022	405,000	26,445	431,445
2023	405,000	17,738	422,738
2024	<u>420,000</u>	<u>9,030</u>	<u>429,030</u>
	<u>\$ 2,445,000</u>	<u>\$ 184,794</u>	<u>\$ 2,629,794</u>

Town of Kernersville, North Carolina
Notes to Financial Statements

The State of North Carolina limits the general obligation borrowing of the Town to 8% of its total appraised value of property subject to Town taxation. The Town's legal debt margin, as of June 30, 2018, is as follows:

Assessed value for taxation	\$ 2,934,344,454
Legal debt margin (8%)	234,747,556
Debt applicable to limitation:	
Outstanding general obligation debt	2,445,000
Revolving loan payable	2,800,000
Installment purchases	<u>21,787,661</u>
Total net debt applicable to limit	<u>27,032,661</u>
Remaining legal debt margin	<u>\$ 207,714,895</u>

(c) Revolving loan payable

On June 3, 2003, the Town was approved for a maximum loan amount of \$8,000,000 from the U.S. Environmental Protection Agency passed through the North Carolina Department of Environmental and Natural Resources under the Clean Water State Revolving Fund. The loan proceeds were used to assist in the relocation of the Deep River Pump Station, construction of the Twin Creek Pump Station, and construction of new force mains and interceptors ending at the Abbott's Creek Pump Station. The loan is repayable in equal principal repayments of \$400,000 plus interest at 2.42% through fiscal year ending 2025. The Town repaid \$400,000 during fiscal year ended June 30, 2018. The total amount outstanding at June 30, 2018 was \$2,800,000.

Annual debt service requirements to maturity for the Revolving Loan Payable are as follows:

<u>Fiscal Year Ending June 30,</u>	<u>Governmental Activities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 400,000	\$ 67,760	\$ 467,760
2020	400,000	58,080	458,080
2021	400,000	48,400	448,400
2022	400,000	38,720	438,720
2023	400,000	29,040	429,040
2024 - 2026	<u>800,000</u>	<u>29,040</u>	<u>829,040</u>
	<u>\$ 2,800,000</u>	<u>\$ 271,040</u>	<u>\$ 3,071,040</u>

(d) Changes in long-term obligations

During the year ended June 30, 2018, the following changes occurred in long-term obligations:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion of Balance</u>
Governmental activities:					
General obligation bonds	\$ 2,850,000	\$ -	\$ (405,000)	\$ 2,445,000	\$ 405,000
Revolving loan payable	3,200,000	-	(400,000)	2,800,000	400,000
Installment purchases	13,811,170	10,042,035	(2,340,321)	21,512,884	2,523,554
Compensated absences	1,341,924	1,462,554	(1,397,925)	1,406,553	1,397,925
Net pension liability (LGERS)	4,466,133	-	(1,309,431)	3,156,702	-
Total pension liability (LEO)	2,539,929	404,101	(168,759)	2,775,271	-
Total OPEB obligation	<u>6,184,675</u>	<u>4,879,824</u>	<u>(286,135)</u>	<u>10,778,364</u>	<u>-</u>
	<u>\$ 34,393,831</u>	<u>\$ 16,788,514</u>	<u>\$ (6,307,571)</u>	<u>\$ 44,874,774</u>	<u>\$ 4,726,479</u>

Town of Kernersville, North Carolina
Notes to Financial Statements

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Current Portion of Balance</u>
Business-type activities:					
Installment purchases	\$ 389,201	\$ -	\$ (114,424)	\$ 274,277	\$ 115,186
Compensated absences	13,360	11,355	(8,382)	16,333	8,382
Net pension liability (LGERS)	127,873	-	(31,289)	96,584	-
Total OPEB obligation	<u>126,218</u>	<u>99,588</u>	<u>(5,839)</u>	<u>219,967</u>	<u>-</u>
	<u>\$ 656,652</u>	<u>\$ 110,943</u>	<u>\$ (159,934)</u>	<u>\$ 607,661</u>	<u>\$ 123,568</u>

Compensated absences, net pension obligation, and net OPEB obligation have typically been liquidated in the General Fund.

C. Interfund balances and activity

Transfers to/from other funds at June 30, 2018 consist of the following:

From the General Fund to the Stormwater Fund for storm water fees.	\$ 220,579
From the General Fund to the Capital Reserve Fund for estimated development fees related to future capital projects.	800,108
From the General Fund to Public Works Facility Capital Project Ordinance Fund for construction of new facility.	547,100
From the General Fund to the Emergency Telephone System Fund to offset the originally anticipated reimbursement from Forsyth County that was not received.	34,242
From Law Enforcement Forfeitures Fund to the General Fund for reimbursement of debt payments made for emergency vehicle purchased for the Fund.	30,860
From the Occupancy Tax Fund to the General Fund support the Kernersville Museum.	<u>48,500</u>
	<u>\$ 1,681,389</u>

D. Fund balance

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

Total fund balance - General Fund	\$ 14,205,764
Less:	
Prepaid assets	2,700
Stabilization by state statute	2,523,845
Capital equipment	<u>1,474,099</u>
Unrestricted fund balance	10,205,120
Working capital/fund balance policy	<u>6,891,569</u>
Remaining fund balance	<u>\$ 3,313,551</u>

The Town's fund balance policy defines Unrestricted Fund Balance as all committed, assigned, and unassigned fund balances. The Town of Kernersville has adopted a minimum fund balance policy for the General Fund, which

Town of Kernersville, North Carolina
Notes to Financial Statements

instructs management to conduct business of the Town in such a manner that available fund balance is at least equal to or greater than 20% of budgeted expenditures.

3. Reconciliation of GAAP and Budget Basis Expenditures

The accompanying schedule reconciles certain General Fund transactions which are treated differently on Exhibit 4 (GAAP basis) and Exhibit 5 (budgetary basis). These differences relate to installment purchase transactions and the water/sewer bond indebtedness, and are summarized below:

	<u>Exhibit 4</u>	<u>Increase (Decrease)</u>		<u>Exhibit 5</u>
General government	\$ 4,763,809	\$ 383,525	(1)	\$ 5,147,334
Public safety	14,790,643	970,570	(1)	15,761,213
Public service	7,019,972	225,571	(1)	7,245,543
Culture and recreation	1,999,897	202,921	(1)	2,202,818
Debt service	-	943,715	(1)	943,715
Principal retirement	2,410,419	(2,410,419)	(1)	-
Interest and fiscal charges	<u>315,883</u>	<u>(315,883)</u>	(1)	<u>-</u>
Total	<u>\$ 31,300,623</u>	<u>\$ -</u>		<u>\$ 31,300,623</u>

(1) *Reclassification of installment purchases and note payments.*

4. Jointly Governed Organizations

The Town is a participating member of the Piedmont Triad Regional Council (PTRC), which is a voluntary association of local governments serving 73 member governments in a 12-county area. The PTRC was established to make and implement joint regional decisions by bringing together local elected officials on a regular basis to give them an opportunity to form working relationships and promote cooperation among the members. Each of the 73 participating governments appoint one member to the PTRC's Board of Delegates. The Town paid membership fees of \$5,084 to the PTRC during the fiscal year ended June 30, 2018.

The Town, along with six other municipalities and Forsyth County, is also a participating member of the Triad Municipal Alcoholic Beverage Control Board. The Town of Kernersville appoints one member to the nine-member governing board. This organization was established under North Carolina Alcoholic Beverage laws to operate liquor stores in the Davie, Forsyth, Guilford and Yadkin County areas. North Carolina General Statutes require the ABC Board to distribute its net income to the participating municipalities. The distribution to the Town amounted to \$496,165 during the fiscal year ended June 30, 2018. Complete financial statements for the Triad Municipal ABC Board are available through their administrative offices at 3127 Starlight Drive, Winston-Salem, North Carolina 27107-4141.

5. Interlocal Agreement

An interlocal agreement between the Town and City/County Utility Commission (CCUC), which oversees the Winston-Salem/Forsyth County water and sewer system, was established in 1996. As a condition of the interlocal agreement, the Town transferred control and ownership of its pre-existing water and sewer systems and extensions to the CCUC, and the CCUC agreed to assume sole responsibility for planning, constructing, operating and maintaining the water and sewer systems. As part of the agreement, it was determined that the CCUC would charge

Town of Kernersville, North Carolina
Notes to Financial Statements

the Town's sewer service customers an incremental rate to defray costs of repairs and continual improvements to the systems. The incremental rate was set to decline over the next ten years, allowing the overall rate charged to the Town's sewer customers to parallel those charged to similar customers. However, during July 2003, the incremental rate was frozen and a Rate Differential Account was established to accumulate the difference between the frozen rate and the previously scheduled rates. The funds accumulated within the Rate Differential Account were to be used by the Town for future water and sewer projects and debt service of the revolving loan payable (see Note II.B.7.c). The Rate Differential Account remains in the possession of the CCUC. As of June 30, 2018, the Rate Differential Account amounted to \$18,091,122. Under the terms of the most recent modification agreement in July 2016, the contract was extended in perpetuity.

6. Summary Disclosure of Significant Contingencies

Federal- and state-assisted programs

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

7. Subsequent Events

Subsequent to year end, the Town of Kernersville entered into two installment purchase agreements for the purchase of personal property (primarily vehicles and equipment), real property, and construction of various Town improvements.

8. Change in Accounting Principles

The Town implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the fiscal year ended June 30, 2018. The implementation of the statement required the Town to record beginning total OPEB liability and the effects on net position of benefit payments and administrative expenses paid by the Town related to OPEB during the measurement period (fiscal year ending June 30, 2018). The information for full retrospective application is not practical to obtain, so the accounting change was implemented in fiscal year 2018 with a cumulative effect adjustment to net position as of the beginning of the year. As a result, net position for the governmental activities decreased \$3,619,474 and \$120,605 for business-type activities.

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Required Supplementary Financial Data

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

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

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Town of Kernersville, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
For the Year Ended June 30, 2018*
Required Supplementary Information

Exhibit A-1

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 2,539,929	\$ 2,546,410
Service cost	95,531	101,702
Interest on the total pension liability	94,784	88,460
Changes in benefit terms	-	-
Differences between expensed and actual experience in the measurement of the total pension liability	53,053	-
Changes of assumptions or other inputs	160,733	(59,575)
Benefit payments	(168,759)	(137,068)
Other changes	-	-
Ending balance of the total pension liability**	<u>\$ 2,775,271</u>	<u>\$ 2,539,929</u>

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

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

Town of Kernersville, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
For the Year Ended June 30, 2018*
Required Supplementary Information

Exhibit A-2

	<u>2018</u>	<u>2017</u>
Total pension liability**	\$ 2,775,271	\$ 2,539,929
Covered payroll	\$ 3,628,855	\$ 3,661,815
Total pension liability as a percentage of covered payroll	76.48%	69.36%

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

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

Town of Kernersville, North Carolina
Schedule of Changes in the Total OPEB Liability and Related Ratios
Required Supplementary Information
June 30, 2018*

Exhibit B-1

	<u>2018</u>
Total OPEB liability**	
Service cost	\$ 419,838
Interest	389,376
Changes of benefit terms	-
Differences between expected and actual experience	-
Changes of assumptions	-
Benefit payments	<u>(291,974)</u>
Net change in total OPEB liability	\$ 517,240
Total OPEB liability, beginning	<u>10,481,091</u>
Total OPEB liability, ending	<u>\$ 10,998,331</u>
Covered payroll	\$ 11,811,467
Total OPEB liability as a percentage of covered payroll	93.12%

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

<u>Fiscal year</u>	<u>Rate</u>
2018	3.62%

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

** The Town of Kernersville has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 75 to pay related benefits.

Town of Kernersville, North Carolina
Schedule of Proportionate Share of Net Pension Liability (Asset)
Local Government Employees' Retirement System
Required Supplementary Information
Last Four Fiscal Years*

Schedule C-1

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Kernersville's proportion of the net pension liability (asset) (%)	0.21295%	0.21646%	0.22629%	0.22694%	0.23710%
Kernersville's proportion of the net pension liability (asset) (\$)	\$ 3,253,286	\$ 4,594,006	\$ 1,015,579	\$ (1,338,370)	\$ 2,857,965
Kernersville's covered-employee payroll	\$ 12,498,522	\$ 11,935,898	\$ 11,129,175	\$ 10,999,722	\$ 10,989,967
Kernersville's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	26.03%	38.49%	9.13%	-12.17%	26.01%
Plan fiduciary net position as a percentage of the total pension liability	94.18%	91.47%	98.09%	102.64%	94.35%

** The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30. Also, this schedule is intended to provide information for ten fiscal years. Additional years' information will be displayed as it becomes available.*

Town of Kernersville, North Carolina
Schedule of Contributions
Local Government Employees' Retirement System
Required Supplementary Information
Last Four Fiscal Years*

Schedule C-2

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 960,028	\$ 899,448	\$ 812,578	\$ 798,097	\$ 784,303
Contributions in relation to the contractually required contribution	<u>960,028</u>	<u>899,448</u>	<u>812,578</u>	<u>798,097</u>	<u>784,303</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Kernersville's covered-employee payroll	\$ 12,442,787	\$ 12,498,522	\$ 11,935,898	\$ 11,129,175	\$ 10,999,722
Contributions as a percentage of covered-employee payroll	7.72%	7.20%	6.81%	7.17%	7.13%

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

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Supplementary Information

Combining and Individual Fund Statements and Schedules

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Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2018

Schedule 1
(6 pages)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
General revenues:			
Ad valorem taxes:			
Current	\$ 15,849,107	\$ 16,175,089	\$ 325,982
Prior	177,650	67,824	(109,826)
Total	<u>16,026,757</u>	<u>16,242,913</u>	<u>216,156</u>
Other taxes and licenses:			
Local vehicle taxes and fees	112,511	106,866	(5,645)
Cablevision fees	12,050	15,001	2,951
Total	<u>124,561</u>	<u>121,867</u>	<u>(2,694)</u>
Unrestricted intergovernmental:			
Solid waste disposal tax	32,000	16,443	(15,557)
Utility sales tax	1,435,917	1,527,996	92,079
Telecommunications sales tax	188,790	177,384	(11,406)
Alcoholic beverage tax	476,183	603,277	127,094
Local option sales and use tax	5,018,250	5,330,872	312,622
Rental vehicle fees	74,500	79,015	4,515
Video programming	248,935	242,170	(6,765)
Total	<u>7,474,575</u>	<u>7,977,157</u>	<u>502,582</u>
Restricted intergovernmental:			
Powell Bill	646,847	646,848	1
State transportation grants	108,000	28,000	(80,000)
CCUC reimbursements	1,207,233	1,045,230	(162,003)
Governor's Highway Safety grants	77,318	52,023	(25,295)
Federal Department of Justice grants	39,736	32,175	(7,561)
NC Department of Commerce grants	100,000	100,000	-
Total	<u>2,179,134</u>	<u>1,904,276</u>	<u>(274,858)</u>
Penalties and interest:			
Penalties and interest	30,000	28,460	(1,540)
Investment earnings	91,206	112,096	20,890
Total	<u>121,206</u>	<u>140,556</u>	<u>19,350</u>
Contributions and donations	<u>1,032,420</u>	<u>1,016,586</u>	<u>(15,834)</u>
Other general revenues:			
Other	<u>109,280</u>	<u>90,143</u>	<u>(19,137)</u>
Total general revenues	<u>27,067,933</u>	<u>27,493,498</u>	<u>425,565</u>

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2018

Schedule 1
(6 pages)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Functionally related revenues:			
Use and rental fees:			
Recreation revenue	\$ 401,408	\$ 292,412	\$ (108,996)
Commercial industrial collection fees	749,769	685,905	(63,864)
Court facility fees	28,879	28,879	-
Rent on town property	626,545	533,318	(93,227)
Building inspections	406,539	421,430	14,891
Zoning fees	57,000	59,839	2,839
Recycling revenue	214,103	215,213	1,110
Yard waste cart fees and sales	15,120	16,140	1,020
Other functionally related fees	495,177	479,824	(15,353)
	<u>2,994,540</u>	<u>2,732,960</u>	<u>(261,580)</u>
Total functionally related revenues			
	<u>2,994,540</u>	<u>2,732,960</u>	<u>(261,580)</u>
Total revenues	<u>30,062,473</u>	<u>30,226,458</u>	<u>163,985</u>
Expenditures:			
Current:			
General government:			
Governing body:			
Personnel services		25,485	
Operating and maintenance		443,989	
Other improvements		267,688	
Special appropriations		114,628	
Capital outlay		325,313	
Installment purchase agreement payments		238,948	
Total	<u>1,605,853</u>	<u>1,416,051</u>	<u>189,802</u>
Administration:			
Personnel services		307,581	
Operating and maintenance		38,361	
Total	<u>359,898</u>	<u>345,942</u>	<u>13,956</u>
Finance:			
Personnel services		494,943	
Operating and maintenance		422,595	
Total	<u>960,166</u>	<u>917,538</u>	<u>42,628</u>

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2018

Schedule 1
(6 pages)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Information technology:			
Personnel services		\$ 342,028	
Operating and maintenance		156,477	
Capital outlay		141,191	
Installment purchase agreement payments		43,947	
Total	<u>\$ 691,650</u>	<u>683,643</u>	<u>\$ 8,007</u>
Planning and zoning:			
Personnel services		349,114	
Operating and maintenance		30,505	
Total	<u>402,405</u>	<u>379,619</u>	<u>22,786</u>
Human Resources:			
Personnel services		388,985	
Operating and maintenance		164,214	
Installment purchase agreement payments		6,163	
Total	<u>602,476</u>	<u>559,362</u>	<u>43,114</u>
General services:			
Personnel services		205,921	
Operating and maintenance		544,791	
Installment purchase agreement payments		94,467	
Total	<u>860,392</u>	<u>845,179</u>	<u>15,213</u>
Total general government	<u>5,482,840</u>	<u>5,147,334</u>	<u>335,506</u>
Public safety:			
Police department:			
Personnel services		6,512,042	
Operating and maintenance		943,428	
Special appropriations		12,685	
Capital outlay		1,324,847	
Installment purchase agreement payments		608,369	
Total	<u>9,788,648</u>	<u>9,401,371</u>	<u>387,277</u>

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2018

Schedule 1
(6 pages)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Fire department:			
Personnel services		\$ 4,917,780	
Operating and maintenance		502,417	
Special appropriations		22,500	
Capital outlay		83,598	
Installment purchase agreement payments		353,587	
Total	<u>\$ 6,153,930</u>	<u>5,879,882</u>	<u>\$ 274,048</u>
Inspections:			
Personnel services		405,159	
Operating and maintenance:		42,233	
Capital outlay		23,954	
Installment purchase agreement payments		8,614	
Total	<u>532,884</u>	<u>479,960</u>	<u>52,924</u>
Total public safety	<u>16,475,462</u>	<u>15,761,213</u>	<u>714,249</u>
Public service:			
Engineering department:			
Personnel services		71,954	
Operating and maintenance		266,077	
Capital outlay		374,648	
Total	<u>900,963</u>	<u>712,679</u>	<u>188,284</u>
Street department:			
Personnel services		884,172	
Operating and maintenance		726,187	
Capital outlay		789,489	
Installment purchase agreement payments		136,317	
Total	<u>2,956,452</u>	<u>2,536,165</u>	<u>420,287</u>
Sanitation department:			
Personnel services		928,973	
Operating and maintenance		802,786	
Installment purchase agreement payments		52,800	
Total	<u>1,847,991</u>	<u>1,784,559</u>	<u>63,432</u>

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2018

Schedule 1
(6 pages)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Public works administration:			
Personnel services		\$ 353,935	
Operating and maintenance		32,601	
Capital outlay		224,998	
Installment purchase agreement payments		36,454	
Total	<u>\$ 663,210</u>	<u>647,988</u>	<u>\$ 15,222</u>
Central maintenance:			
Personnel services		537,763	
Operating and maintenance		1,009,894	
Capital outlay		16,495	
Total	<u>1,607,156</u>	<u>1,564,152</u>	<u>43,004</u>
Total public service	<u>7,975,772</u>	<u>7,245,543</u>	<u>730,229</u>
Cultural and recreational:			
Recreation department:			
Personnel services		870,601	
Operating and maintenance		717,296	
Capital outlay		357,574	
Installment purchase agreement payments		202,921	
Total	<u>2,703,920</u>	<u>2,148,392</u>	<u>555,528</u>
Paddison Library:			
Operating and maintenance		54,426	
Total	<u>56,092</u>	<u>54,426</u>	<u>1,666</u>
Total cultural and recreational	<u>2,760,012</u>	<u>2,202,818</u>	<u>557,194</u>
Debt service:			
Principal retirement	805,000	805,000	
Interest and fiscal charges	138,715	138,715	
Total debt service	<u>943,715</u>	<u>943,715</u>	<u>-</u>
Total expenditures	<u>33,637,801</u>	<u>31,300,623</u>	<u>2,337,178</u>
Revenues under expenditures	<u>(3,575,328)</u>	<u>(1,074,165)</u>	<u>2,501,163</u>

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
Year Ended June 30, 2018

Schedule 1
(6 pages)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Transfers from other funds:			
Occupancy Tax Fund	\$ 48,500	\$ 48,500	\$ -
Law Enforcement Forfeitures Fund	30,860	30,860	-
Capital Reserve Fund	46,000	46,000	-
Transfers to other funds:			
Emergency Telephone System Fund	(34,242)	(34,242)	-
Capital Reserve Fund	(754,108)	(754,108)	-
Stormwater Fund	(220,579)	(220,579)	-
Transfer to Public Works Facility Fund	(547,100)	(547,100)	-
Total net transfers	(1,430,669)	(1,430,669)	-
Installment purchase obligations issued	3,142,035	3,142,035	-
Sale of capital assets	75,000	60,812	(14,188)
Total other financing sources	1,786,366	1,772,178	(14,188)
Revenues and other financing sources over (under) expenditures and other financing uses	(1,788,962)	698,013	2,486,975
Appropriated fund balance	1,788,962	-	(1,788,962)
Revenues, other financing sources and appropriated fund balance over expenditures and other financing uses	<u>\$ -</u>	698,013	<u>\$ 698,013</u>
Fund balance, beginning		11,757,917	
Fund balance, ending		<u>\$ 12,455,930</u>	

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Capital Reserve Fund
Year Ended June 30, 2018

Schedule 2

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues				
Investment earnings	\$ 2,000	\$ 16,000	\$ 18,070	\$ 2,070
Expenditures				
Capital reserve expenditures	1,797,003	1,747,764	-	1,747,764
Revenues over (under) expenditures	(1,795,003)	(1,731,764)	18,070	1,749,834
Other financing sources (uses)				
Transfers in:				
General Fund	569,748	754,108	754,108	-
Transfers out:				
General Fund	(2,000)	(46,000)	(46,000)	-
Total other financing sources (uses)	567,748	708,108	708,108	-
Revenues and other financing sources over (under) expenditures and other financing uses	(1,227,255)	(1,023,656)	726,178	1,749,834
Appropriated fund balance	1,227,255	1,023,656	-	(1,023,656)
Revenues and appropriated fund balance over expenditures and other financing uses	\$ -	\$ -	726,178	\$ 726,178
Fund balance, beginning			1,023,656	
Fund balance, ending			\$ 1,749,834	

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Project Authorization and Actual
Public Works
Capital Projects Funds
Facility Capital Projects Ordinance Fund
From Inception and for the Year Ended June 30, 2018

Schedule 3

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues					
Investment earnings	\$ 33,676	\$ 30,742	\$ 4,555	\$ 35,297	\$ 1,621
Total revenues	<u>33,676</u>	<u>30,742</u>	<u>4,555</u>	<u>35,297</u>	<u>1,621</u>
Expenditures					
Public service:					
Capital development:					
Other operating expenditures	493,769	494,864	-	494,864	(1,095)
Capital outlay	5,525,089	1,989,814	3,524,717	5,514,531	10,558
Debt service:					
Principal retirement	565,214	171,000	342,000	513,000	(52,214)
Interest and other charges	99,030	52,144	99,030	151,174	52,144
Total expenditures:	<u>6,683,102</u>	<u>2,707,822</u>	<u>3,965,747</u>	<u>6,673,569</u>	<u>9,393</u>
Revenues under expenditures	<u>(6,649,426)</u>	<u>(2,677,080)</u>	<u>(3,961,192)</u>	<u>(6,638,272)</u>	<u>11,014</u>
Other financing sources					
Transfers in:					
General Fund	1,114,426	567,326	547,100	1,114,426	-
Stormwater Fund	405,000	405,000	-	405,000	-
Installment purchase obligations issued	5,130,000	5,130,000	-	5,130,000	-
Total other financing sources	<u>6,649,426</u>	<u>6,102,326</u>	<u>547,100</u>	<u>6,649,426</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures	<u>\$ -</u>	<u>\$ 3,425,246</u>	<u>(3,414,092)</u>	<u>\$ 11,154</u>	<u>\$ 11,014</u>
Fund balance, beginning			<u>3,425,246</u>		
Fund balance, ending			<u>\$ 11,154</u>		

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Project Authorization and Actual
Fire Department Facility
Capital Projects Funds
Facility Capital Projects Ordinance Fund
From Inception and for the Year Ended June 30, 2018

Schedule 4

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Actual Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Revenues					
Investment earnings	\$ -	\$ -	\$ 423	\$ 423	\$ 423
Total revenues	<u>-</u>	<u>-</u>	<u>423</u>	<u>423</u>	<u>423</u>
Expenditures					
Public safety:					
Capital outlay	6,900,000	251,033	3,009,743	3,260,776	3,639,224
Debt service:					
Principal retirement	530,875	-	345,000	345,000	185,875
Interest and other charges	<u>133,834</u>	<u>-</u>	<u>133,834</u>	<u>133,834</u>	<u>-</u>
Total expenditures:	<u>7,564,709</u>	<u>251,033</u>	<u>3,488,577</u>	<u>3,739,610</u>	<u>3,825,099</u>
Revenues under expenditures	<u>(7,564,709)</u>	<u>(251,033)</u>	<u>(3,488,154)</u>	<u>(3,739,187)</u>	<u>3,825,522</u>
Other financing sources					
Transfers in:					
General Fund	530,875	530,875	-	530,875	-
Installment purchase obligations issued	<u>6,900,000</u>	<u>-</u>	<u>6,900,000</u>	<u>6,900,000</u>	<u>-</u>
Total other financing sources	<u>7,430,875</u>	<u>530,875</u>	<u>6,900,000</u>	<u>7,430,875</u>	<u>-</u>
Revenues and other financing sources over expenditures	<u>\$ (133,834)</u>	<u>\$ 279,842</u>	3,411,846	<u>\$ 3,691,688</u>	<u>\$ 3,825,522</u>
Fund balance, beginning			<u>279,842</u>		
Fund balance, ending			<u>\$ 3,691,688</u>		

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Supplementary Information

Non-major Governmental Funds

Occupancy Tax Fund - accounts for the revenue generated by the tax charged on hotel and motel rooms to be used to promote travel and tourism, and tourism-related expenditures.

Emergency Telephone System Fund - accounts for 911 system subscriber fees and levies as provided for in North Carolina General Statute (NCGS) 159-26(b)(2). Under NCGS Chapter 62A, the Town of Kernersville imposes a monthly service charge to cover the cost of administering an enhanced 911 emergency telecommunications wire line system.

Contributions Fund - accounts for donations used to support drug education programs.

Law Enforcement Forfeitures Fund - accounts for restricted proceeds resulting from the sale of properties seized in criminal investigations.

Kerner Mill Greenway Capital Projects Ordinance Fund - accounts for the financial resources and uses for the acquisition or construction of assets and improvements related to the Kerner Mill Greenway.

Town of Kernersville, North Carolina
Combining Balance Sheet
Non-major Governmental Funds
June 30, 2018

Schedule 5

	Non-major Special Revenue Funds		
	Occupancy Tax Fund	Emergency Telephone System Fund	Contributions Fund
ASSETS			
Cash and cash equivalents	\$ 42,227	\$ 45,868	\$ 96,761
Restricted cash	-	-	-
Due from other governments	13,297	-	-
Total assets	<u>\$ 55,524</u>	<u>\$ 45,868</u>	<u>\$ 96,761</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 3,545
Total liabilities	-	-	3,545
Fund balances:			
Restricted:			
Stabilization by state statute	13,297	-	-
Tourism	42,227	-	-
Public safety	-	45,868	93,216
Committed:			
Capital projects	-	-	-
Total fund balances	<u>55,524</u>	<u>45,868</u>	<u>93,216</u>
Total liabilities and fund balances	<u>\$ 55,524</u>	<u>\$ 45,868</u>	<u>\$ 96,761</u>

Non-major Special Revenue Funds	Non-major Capital Project Funds	
Law Enforcement Forfeitures Fund	Kerner Mill Greenway Capital Projects Ordinance Fund	Total Non-major Governmental Funds
\$ 255,002	\$ 7,533	\$ 447,391
1,394	-	1,394
-	-	13,297
<u>\$ 256,396</u>	<u>\$ 7,533</u>	<u>\$ 462,082</u>
<u>\$ -</u>	<u>\$ 1,470</u>	<u>\$ 5,015</u>
-	1,470	5,015
-	-	13,297
-	-	42,227
256,396	-	395,480
-	6,063	6,063
<u>256,396</u>	<u>6,063</u>	<u>457,067</u>
<u>\$ 256,396</u>	<u>\$ 7,533</u>	<u>\$ 462,082</u>

Town of Kernersville, North Carolina
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-major Governmental Funds
Year Ended June 30, 2018

Schedule 6

	Non-major Special Revenue Funds		
	Occupancy Tax Fund	Emergency Telephone System Fund	Contributions Fund
Revenues			
Other taxes and licenses	\$ 161,720	\$ -	\$ -
Restricted intergovernmental	-	23,526	-
Investment earnings	495	1,227	382
Contributions and donations	-	-	16,543
Total revenues	<u>162,215</u>	<u>24,753</u>	<u>16,925</u>
Expenditures			
Public safety	-	51,141	9,044
Cultural and recreational	89,500	-	-
Debt service:			
Principal	-	-	-
Interest and other charges	-	-	-
Total expenditures	<u>89,500</u>	<u>51,141</u>	<u>9,044</u>
Revenues over (under) expenditures	<u>72,715</u>	<u>(26,388)</u>	<u>7,881</u>
Other financing sources (uses)			
Transfers in:			
General Fund	-	34,242	-
Transfers out:			
General Fund	<u>(48,500)</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(48,500)</u>	<u>34,242</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures and other financing uses	24,215	7,854	7,881
Fund balances, beginning	<u>31,309</u>	<u>38,014</u>	<u>85,335</u>
Fund balances, ending	<u>\$ 55,524</u>	<u>\$ 45,868</u>	<u>\$ 93,216</u>

Non-major Special Revenue Funds	Non-major Capital Project Funds	
Law Enforcement Forfeitures Fund	Kerner Mill Greenway Capital Projects Ordinance Fund	Total Non-major Governmental Funds
\$ -	\$ -	\$ 161,720
134,474	-	158,000
305	-	2,409
-	-	16,543
<u>134,779</u>	<u>-</u>	<u>338,672</u>
210	-	60,395
-	13,996	103,496
75,952	-	75,952
3,144	-	3,144
<u>79,306</u>	<u>13,996</u>	<u>242,987</u>
<u>55,473</u>	<u>(13,996)</u>	<u>95,685</u>
-	-	34,242
<u>(30,860)</u>	<u>-</u>	<u>(79,360)</u>
<u>(30,860)</u>	<u>-</u>	<u>(45,118)</u>
24,613	(13,996)	50,567
<u>231,783</u>	<u>20,059</u>	<u>406,500</u>
<u>\$ 256,396</u>	<u>\$ 6,063</u>	<u>\$ 457,067</u>

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Occupancy Tax Fund
Year Ended June 30, 2018

Schedule 7

	Budgeted Amounts		Actual	Variance with
	Original	Final		Final Budget
				Positive
				(Negative)
Revenues				
Occupancy tax proceeds	\$ 120,000	\$ 120,000	\$ 161,720	\$ 41,720
Investment earnings	50	481	495	14
Total revenues	<u>\$ 120,050</u>	<u>\$ 120,481</u>	<u>162,215</u>	<u>\$ 41,734</u>
Expenditures				
Cultural and recreational	<u>89,500</u>	<u>89,500</u>	<u>89,500</u>	<u>-</u>
Revenues over expenditures	<u>30,550</u>	<u>30,981</u>	<u>72,715</u>	<u>41,734</u>
Other financing uses				
Transfers out:				
General Fund	<u>(48,500)</u>	<u>(48,500)</u>	<u>(48,500)</u>	<u>-</u>
Revenues over (under) expenditures and other financing uses	<u>(17,950)</u>	<u>(17,519)</u>	<u>24,215</u>	<u>41,734</u>
Appropriated fund balance	<u>17,950</u>	<u>17,519</u>	<u>-</u>	<u>(17,519)</u>
Revenues, other financing sources and appropriated fund balance over expenditures and other financing uses	<u>\$ -</u>	<u>\$ -</u>	<u>24,215</u>	<u>\$ 24,215</u>
Fund balance, beginning			<u>31,309</u>	
Fund balance, ending			<u>\$ 55,524</u>	

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Emergency Telephone System Fund
Year Ended June 30, 2018

Schedule 8

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Restricted intergovernmental	\$ 28,000	\$ 42,735	\$ 23,526	\$ (19,209)
Investment earnings	25	25	1,227	1,202
Total revenues	28,025	42,760	24,753	(18,007)
Expenditures				
Public safety:				
Other operating expenditures			51,141	
Total expenditures	62,267	77,002	51,141	25,861
Revenues under expenditures	(34,242)	(34,242)	(26,388)	7,854
Other financing sources				
Transfers in:				
General Fund	34,242	34,242	34,242	-
Revenues and other financing sources over expenditures	\$ -	\$ -	7,854	\$ 7,854
Fund balance, beginning			38,014	
Fund balance, ending			\$ 45,868	

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Contributions Fund
Year Ended June 30, 2018

Schedule 9

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>		<u>Final Budget</u>
				<u>Positive</u>
				<u>(Negative)</u>
Revenues:				
Investment earnings			\$ 382	
Contributions and donations			16,543	
Total revenues	\$ 5,625	\$ 17,209	16,925	\$ (284)
Expenditures:				
Public safety			9,044	
Total expenditures	6,840	18,495	9,044	9,451
Revenues over (under) expenditures	(1,215)	(1,286)	7,881	9,167
Appropriated fund balance	1,215	1,286	-	(1,286)
Revenues and appropriated fund balance over expenditures	\$ -	\$ -	7,881	\$ 7,881
Fund balance, beginning			85,335	
Fund balance, ending			\$ 93,216	

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual
Law Enforcement Forfeitures Fund
Year Ended June 30, 2018

Schedule 10

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		Positive (Negative)
Revenues:				
Restricted intergovernmental			\$ 134,474	
Investment earnings			305	
Total revenues	\$ 75	\$ 130,598	134,779	\$ 4,181
Expenditures:				
Public safety			210	
Debt service:				
Principal retirement			75,952	
Interest and other charges			3,144	
Total expenditures	81,893	196,787	79,306	117,481
Revenues over (under) expenditures	(81,818)	(66,189)	55,473	121,662
Other financing uses:				
Transfers out:				
General Fund	-	(30,860)	(30,860)	-
Revenues and other financing uses over (under) expenditures and other financing uses	(81,818)	(97,049)	24,613	121,662
Appropriated fund balance	81,818	97,049	-	(97,049)
Revenues, other financing sources and appropriated fund balance over expenditures and other financing uses	\$ -	\$ -	24,613	\$ 24,613
Fund balance, beginning			231,783	
Fund balance, ending			\$ 256,396	

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in
Project Authorization and Actual
Kerner Mill
Capital Projects Funds
Greenway Capital Projects Ordinance Fund
From Inception and for the Year Ended June 30, 2018

Schedule 11

	Project Authorization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues					
Restricted					
intergovernmental	\$ 1,405,063	\$ -	\$ -	\$ -	\$ (1,405,063)
Investment earnings	-	333	-	333	333
Total revenues	<u>1,405,063</u>	<u>333</u>	<u>-</u>	<u>333</u>	<u>(1,404,730)</u>
Expenditures					
Cultural and recreational:					
Other operating expenditures	260,963	195,350	12,246	207,596	53,367
Capital outlay	1,393,906	84,730	1,750	86,480	1,307,426
Total expenditures	<u>1,654,869</u>	<u>280,080</u>	<u>13,996</u>	<u>294,076</u>	<u>1,360,793</u>
Revenues under expenditures	<u>(249,806)</u>	<u>(279,747)</u>	<u>(13,996)</u>	<u>(293,743)</u>	<u>(43,937)</u>
Other financing sources (uses)					
Transfers in:					
General Fund	403,806	403,806	-	403,806	-
Transfers out:					
General Fund	<u>(169,000)</u>	<u>(104,000)</u>	<u>-</u>	<u>(104,000)</u>	<u>65,000</u>
Total other financing sources	<u>234,806</u>	<u>299,806</u>	<u>-</u>	<u>299,806</u>	<u>65,000</u>
Revenues and other financing sources over (under) expenditures and other financing uses	(15,000)	20,059	(13,996)	6,063	21,063
Appropriated fund balance	<u>\$ 15,000</u>	<u>\$ (20,059)</u>	<u>\$ -</u>	<u>\$ (6,063)</u>	<u>\$ (21,063)</u>
Excess of revenues, other sources appropriated fund balance (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	(13,996)	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>20,059</u>		
Fund balance, ending			<u>\$ 6,063</u>		

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP)
Stormwater Enterprise Fund
Year Ended June 30, 2018

Schedule 12
(2 pages)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Charges for services		\$ 1,074,193	
Investment earnings		15,648	
Total revenues	<u>\$ 1,519,527</u>	<u>1,089,841</u>	<u>\$ (429,686)</u>
Expenditures			
Personnel services		534,290	
Operating and maintenance		632,048	
Capital outlay		6,300	
Debt service:			
Principal retirement		114,424	
Interest and other charges		4,118	
Total expenditures	<u>2,287,928</u>	<u>1,291,180</u>	<u>996,748</u>
Revenues under expenditures	<u>(768,401)</u>	<u>(201,339)</u>	<u>567,062</u>
Other financing sources			
Transfers in:			
General Fund	<u>220,579</u>	<u>220,579</u>	<u>-</u>
Total other financing sources	<u>220,579</u>	<u>220,579</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures	<u>(547,822)</u>	<u>19,240</u>	<u>567,062</u>
Appropriated fund balance	<u>547,822</u>	<u>-</u>	<u>(547,822)</u>
Revenues, other financing sources and appropriated fund balance over expenditures	<u>\$ -</u>	<u>19,240</u>	<u>\$ 19,240</u>

Town of Kernersville, North Carolina
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual (Non-GAAP)
Stormwater Enterprise Fund
Year Ended June 30, 2018

Schedule 12
(2 pages)

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		\$ 6,300	
Principal retirement		114,424	
Installment purchase obligations issued		-	
Depreciation		(182,681)	
Increase in accrued interest payable		(1,936)	
Increase in accrued vacation pay		(4,973)	
Deferred outflows of resources for contributions made to pension plan in current fiscal year		28,502	
Pension expense		(28,972)	
Increase on OPEB liability		<u>(99,588)</u>	
Total reconciling items		<u>(168,924)</u>	
Change in net position		<u>\$ (149,684)</u>	

Town of Kernersville, North Carolina
Schedule of Revenues and Expenditures
Financial Plan and Actual (Non-GAAP)
Worker's Comp Self-Insurance Fund
Year Ended June 30, 2018

Schedule 13

	<u>Financial Plan</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues			
Operating revenues:			
Charges for services	\$ 307,000	\$ 307,000	\$ -
Nonoperating revenues:			
Investment earnings	<u>9,755</u>	<u>10,092</u>	<u>337</u>
Total revenues	<u>316,755</u>	<u>317,092</u>	<u>337</u>
Expenditures			
Claims paid		54,002	
Stop-loss coverage		63,100	
Administration		<u>9,000</u>	
Total expenditures	<u>316,755</u>	<u>126,102</u>	<u>190,653</u>
Revenues over expenditures	<u>\$ -</u>	190,990	<u>\$ 190,990</u>
Reconciliation from financial plan basis (modified accrual) to full accrual:			
Reconciling items:			
Increase in claims reserve		<u>(83,658)</u>	
Change in net position		<u>\$ 107,332</u>	

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Supplementary Information

Other Schedules

This section contains additional information on property taxes.

- Schedule of Ad Valorem Taxes Receivable
- Analysis of Current Tax Levy

Town of Kernersville, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2018

Schedule 14

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2017</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2018</u>
2017-18	\$ -	\$ 16,593,019	\$ 16,474,026	\$ 118,993
2016-17	141,925	-	74,297	67,628
2015-16	64,565	-	43,398	21,167
2014-15	28,679	-	9,248	19,431
2013-14	51,760	-	33,134	18,626
2012-13	44,610	-	28,572	16,038
2011-12	51,946	-	2,813	49,133
2010-11	43,136	-	2,102	41,034
2009-10	27,688	-	1,605	26,083
2008-09	29,915	-	798	29,117
2007-08	7,588	-	7,588	-
	<u>\$ 491,812</u>	<u>\$ 16,593,019</u>	<u>\$ 16,677,581</u>	407,250

Less allowance for uncollectible accounts:
General Fund

(73,000)

\$ 334,250

Reconciliation of collections and credits with revenues:

Ad valorem taxes - General Fund	\$ 16,242,913
Local vehicle taxes and fees - General Fund	106,866
Recycling revenue - General Fund	215,213
Refunds	11,144
Releases and other adjustments	93,857
Amounts written off for tax year 2007-2008 per statute of limitations	<u>7,588</u>
	<u>\$ 16,677,581</u>

Town of Kernersville, North Carolina
Analysis of Current Tax Levy
June 30, 2018

Schedule 15

	Town-Wide		Total Levy		
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 2,934,344,454	\$ 0.5545	\$ 16,270,940	\$ 14,956,022	\$ 1,314,918
Recycling fees	-		215,213	215,213	-
Vehicle tag fees	-		106,866	2,915	103,951
Total property valuation	<u>\$ 2,934,344,454</u>				
Total levy			16,593,019	15,174,150	1,418,869
Less releases and deductions			-	-	-
Net levy			16,593,019	15,174,150	1,418,869
Uncollected taxes at June 30, 2017			(118,993)	(118,993)	-
Current year's taxes collected			<u>\$ 16,474,026</u>	<u>\$ 15,055,157</u>	<u>\$ 1,418,869</u>
Current levy collection percentage			<u>99.28%</u>	<u>99.22%</u>	<u>100.00%</u>

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Supplementary Information

Statistical Section

This part of the Town of Kernersville's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the Town's overall financial health.

	<u>Page</u>
Financial Trends Information These schedules contain trend information to help the reader understand how the Town's financial performance and well-being have changed over time.	104
Revenue Capacity Information These schedules contain information to help the reader assess the Town's most significant local revenue sources, property taxes and water and sewer charges.	114
Debt Capacity Information These schedules present information to help the reader assess the affordability of the Town's current levels of outstanding debt and the Town's ability to issue additional debt in the future.	121
Demographic and Economic Information These schedules offer demographic and economic indicators to help the reader understand the environment within which the Town's financial activities take place.	127
Operating Information These schedules contain service and infrastructure data to help the reader understand how the information in the Town's financial report relates to the services the Town provides and the activities it performs.	131

Sources: *Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.*

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Financial Trends Information

Town of Kernersville, North Carolina
Net Position by Component
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Governmental activities:				
Net investment in capital assets	\$ 124,490,834	\$ 123,530,664	\$ 124,206,117	\$ 122,184,493
Restricted	-	-	1,687,385	2,450,611
Unrestricted	4,638,537	3,231,105	1,293,180	(1,300,310)
Total governmental activities net position	<u>129,129,371</u>	<u>126,761,769</u>	<u>127,186,682</u>	<u>123,334,794</u>
Business-type activities:				
Net investment in capital assets	330,429	321,492	304,776	229,098
Unrestricted	494,794	435,601	503,485	749,343
Total business-type activities net position	<u>825,223</u>	<u>757,093</u>	<u>808,261</u>	<u>978,441</u>
Primary government:				
Net investment in capital assets	124,821,263	123,852,156	124,510,893	122,413,591
Restricted	-	-	1,687,385	2,450,611
Unrestricted	5,133,331	3,666,706	1,796,665	(550,967)
Total primary government net position	<u>\$ 129,954,594</u>	<u>\$ 127,518,862</u>	<u>\$ 127,994,943</u>	<u>\$ 124,313,235</u>

Source: Statement of Net Position (Exhibit 1 in Basic Financial Statements)

Table 1

2013	2014	2015	2016	2017	2018
\$ 119,209,937	\$ 120,711,678	\$ 120,138,675	\$ 128,965,379	\$ 133,480,840	\$ 135,141,225
1,618,871	2,405,379	2,612,352	3,831,336	2,915,828	2,974,849
733,451	(2,935,846)	(2,382,398)	(3,576,780)	(3,941,027)	(8,037,105)
121,562,259	120,181,211	120,368,629	129,219,935	132,455,641	130,078,969
238,723	213,296	642,737	1,097,645	778,429	733,649
901,352	1,136,080	1,019,185	862,544	1,452,468	1,226,959
1,140,075	1,349,376	1,661,922	1,960,189	2,230,897	1,960,608
119,448,660	120,924,974	120,781,412	130,063,024	134,259,269	135,874,874
1,618,871	2,405,379	2,612,352	3,831,336	2,915,828	2,974,849
1,634,803	(1,799,766)	(1,363,213)	(2,714,236)	(2,488,559)	(6,810,146)
\$ 122,702,334	\$ 121,530,587	\$ 122,030,551	\$ 131,180,124	\$ 134,686,538	\$ 132,039,577

Town of Kernersville, North Carolina
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2009	2010	2011	2012
Expenses				
Governmental activities:				
General government	\$ 2,892,008	\$ 2,956,581	\$ 2,851,088	\$ 4,139,013
Public safety	11,232,997	12,362,244	11,892,407	12,774,638
Public service	10,566,004	8,460,438	8,420,247	8,087,763
Cultural and recreation	1,288,066	1,306,327	1,455,623	1,544,984
Interest on long-term debt	584,278	494,302	448,776	396,651
Total governmental activities expenses	<u>26,563,353</u>	<u>25,579,892</u>	<u>25,068,141</u>	<u>26,943,049</u>
Business-type activities:				
Stormwater management	<u>641,403</u>	<u>740,532</u>	<u>615,230</u>	<u>659,424</u>
Total business-type activities expenses	<u>641,403</u>	<u>740,532</u>	<u>615,230</u>	<u>659,424</u>
Total primary government expenses	<u>27,204,756</u>	<u>26,320,424</u>	<u>25,683,371</u>	<u>27,602,473</u>
Program revenues				
Governmental activities:				
Charges for services:				
General government	236,157	190,051	238,988	251,053
Public safety	223,562	272,264	234,847	167,073
Public service	1,328,114	1,133,576	1,208,031	1,433,066
Cultural and recreation	243,012	259,428	284,283	267,114
Operating grants and contributions	1,589,830	1,770,876	1,888,145	2,871,690
Capital grants and contributions	<u>1,857,585</u>	<u>429,109</u>	<u>2,145,173</u>	<u>248,058</u>
Total governmental activities program revenues	<u>5,478,260</u>	<u>4,055,304</u>	<u>5,999,467</u>	<u>5,238,054</u>
Business-type activities:				
Charges for services:	934,110	946,303	955,981	1,006,712
Capital grants and contributions	<u>-</u>	<u>9,028</u>	<u>-</u>	<u>-</u>
Total business-type activities program revenues	<u>934,110</u>	<u>955,331</u>	<u>955,981</u>	<u>1,006,712</u>
Total primary government program revenues	<u>6,412,370</u>	<u>5,010,635</u>	<u>6,955,448</u>	<u>6,244,766</u>
Net expenses	<u>\$ (20,792,386)</u>	<u>\$ (21,309,789)</u>	<u>\$ (18,727,923)</u>	<u>\$ (21,357,707)</u>

Table 2
(4 pages)

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$ 4,168,945	\$ 3,494,897	\$ 3,629,864	\$ 4,682,077	\$ 4,630,977	\$ 4,547,895
11,782,579	13,008,107	12,661,556	13,322,213	14,815,390	15,078,648
8,575,454	8,187,772	7,656,776	7,682,255	8,980,651	9,039,660
1,606,921	1,603,499	1,958,985	1,935,181	2,014,319	2,061,807
377,849	354,509	303,089	210,542	205,476	497,994
<u>26,511,748</u>	<u>26,648,784</u>	<u>26,210,270</u>	<u>27,832,268</u>	<u>30,646,813</u>	<u>31,226,004</u>
<u>695,750</u>	<u>627,722</u>	<u>413,440</u>	<u>957,626</u>	<u>1,020,285</u>	<u>1,460,104</u>
<u>695,750</u>	<u>627,722</u>	<u>413,440</u>	<u>957,626</u>	<u>1,020,285</u>	<u>1,460,104</u>
<u>27,207,498</u>	<u>27,276,506</u>	<u>26,623,710</u>	<u>28,789,894</u>	<u>31,667,098</u>	<u>32,686,108</u>
335,490	435,885	411,302	537,176	489,370	409,277
157,045	126,997	97,262	126,767	110,179	133,629
1,467,440	1,526,801	1,550,923	1,748,790	1,975,833	1,879,476
282,126	308,777	382,647	381,412	363,926	383,545
2,930,324	2,324,088	1,805,122	2,262,642	2,500,775	2,026,108
<u>162,253</u>	<u>3,070,242</u>	<u>1,349,246</u>	<u>10,264,508</u>	<u>6,653,970</u>	<u>996,330</u>
<u>5,334,678</u>	<u>7,792,790</u>	<u>5,596,502</u>	<u>15,321,295</u>	<u>12,094,053</u>	<u>5,828,365</u>
988,820	1,013,509	1,011,196	1,037,037	1,056,296	1,074,193
-	-	-	-	-	-
<u>988,820</u>	<u>1,013,509</u>	<u>1,011,196</u>	<u>1,037,037</u>	<u>1,056,296</u>	<u>1,074,193</u>
<u>6,323,498</u>	<u>8,806,299</u>	<u>6,607,698</u>	<u>16,358,332</u>	<u>13,150,349</u>	<u>6,902,558</u>
<u>\$ (20,884,000)</u>	<u>\$ (18,470,207)</u>	<u>\$ (20,016,012)</u>	<u>\$ (12,431,562)</u>	<u>\$ (18,516,749)</u>	<u>\$ (25,783,550)</u>

Town of Kernersville, North Carolina
Changes in Net Position
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2009	2010	2011	2012
General revenues and other in net position				
Governmental activities:				
Taxes				
Property taxes	\$ 12,587,826	\$ 12,741,009	\$ 12,817,420	\$ 12,696,485
Other taxes	228,614	229,200	232,061	246,837
Unrestricted intergovernmental revenue	5,792,713	5,810,076	5,993,815	6,200,440
Investments earnings, unrestricted	200,302	49,505	22,952	16,355
Transfers in (out)	263,845	283,845	290,330	177,330
Gain (loss) on disposal of capital assets	-	(23,524)	38,642	(1,581,296)
Miscellaneous	182,521	66,875	98,367	96,956
Total governmental activities	<u>19,255,821</u>	<u>19,156,986</u>	<u>19,493,587</u>	<u>17,853,107</u>
Business-type activities:				
Unrestricted intergovernmental revenue	-	-	-	-
Investments earnings, unrestricted	11,096	916	747	222
Transfers out	(263,845)	(283,845)	(290,330)	(177,330)
Miscellaneous	-	-	-	-
Total business-type activities	<u>(252,749)</u>	<u>(282,929)</u>	<u>(289,583)</u>	<u>(177,108)</u>
Total primary government program revenues	<u>19,003,072</u>	<u>18,874,057</u>	<u>19,204,004</u>	<u>17,675,999</u>
Change in net position				
Governmental activities	(1,829,272)	(2,367,602)	424,913	(3,851,888)
Business activities	39,958	(68,130)	51,168	170,180
Total primary government change in net position	<u>\$ (1,789,314)</u>	<u>\$ (2,435,732)</u>	<u>\$ 476,081</u>	<u>\$ (3,681,708)</u>

Source: Statement of Activities (Exhibit 2 in Basic Financial Statements)

Table 2
(4 pages)

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$ 12,883,905	\$ 13,097,529	\$ 13,493,647	\$ 14,061,544	\$ 15,371,366	\$ 16,239,699
247,477	218,755	238,417	253,740	254,325	283,587
6,194,669	6,036,044	6,606,027	7,095,351	7,392,058	7,977,157
12,787	8,218	7,179	24,449	80,037	176,105
131,789	135,102	285,331	(216,579)	(220,579)	(220,579)
(115,866)	3,203	111,089	143,774	52,202	60,812
49,774	8,283	59,496	-	149,485	2,123,660
<u>19,404,535</u>	<u>19,507,134</u>	<u>20,801,186</u>	<u>21,362,279</u>	<u>23,078,894</u>	<u>26,640,441</u>
-	-	-	-	8,760	-
353	90	121	2,277	5,358	15,648
(131,789)	(135,102)	(285,331)	216,579	220,579	220,579
-	-	-	-	-	-
<u>(131,436)</u>	<u>(135,012)</u>	<u>(285,210)</u>	<u>218,856</u>	<u>234,697</u>	<u>236,227</u>
<u>19,273,099</u>	<u>19,372,122</u>	<u>20,515,976</u>	<u>21,581,135</u>	<u>23,313,591</u>	<u>26,876,668</u>
(1,772,535)	651,140	187,418	8,851,306	4,526,134	1,242,802
161,634	250,775	312,546	298,267	270,708	(149,684)
<u>\$ (1,610,901)</u>	<u>\$ 901,915</u>	<u>\$ 499,964</u>	<u>\$ 9,149,573</u>	<u>\$ 4,796,842</u>	<u>\$ 1,093,118</u>

Town of Kernersville, North Carolina
Fund Balances
Governmental Funds
Last Ten Fiscal Years
(Accrual Basis of Accounting)

	Fiscal Year			
	2009	2010	2011	2012
General Fund				
Reserved	\$ 1,685,444	\$ 1,745,510	N/A	N/A
Unreserved	7,711,465	7,214,136	N/A	N/A
Non-spendable	N/A	N/A	\$ 22,917	\$ 14,490
Restricted	N/A	N/A	1,588,285	2,939,846
Committed	N/A	N/A	147,933	625,097
Assigned	N/A	N/A	302,337	500,654
Unassigned	N/A	N/A	7,034,981	5,619,305
Total general fund	<u>9,396,909</u>	<u>8,959,646</u>	<u>9,096,453</u>	<u>9,699,392</u>
All other governmental funds				
Reserved	219,342	144,729	N/A	N/A
Unreserved, reported in:				
Special revenue funds	639,156	342,578	N/A	N/A
Capital projects funds	2,723,237	2,190,716	N/A	N/A
Restricted	N/A	N/A	429,216	200,460
Committed	N/A	N/A	1,766,051	798,805
Assigned	N/A	N/A	119,429	338,229
Total all other governmental funds	<u>3,581,735</u>	<u>2,678,023</u>	<u>2,314,696</u>	<u>1,337,494</u>
Total fund balance	<u>\$ 12,978,644</u>	<u>\$ 11,637,669</u>	<u>\$ 11,411,149</u>	<u>\$ 11,036,886</u>

N/A - Not applicable prior to and subsequent to the implementation of GASB Statement No. 54.

Source: Balance Sheet - Governmental Funds (Exhibit 3 in Basic Financial Statements)

Table 3

Fiscal Year						
2013	2014	2015	2016	2017	2018	
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
\$ 16,479	\$ 222,957	\$ 5,250	\$ 5,935	\$ 261,570	\$ 2,700	
2,171,712	2,043,075	2,227,084	4,931,738	3,925,085	3,997,944	
1,120,723	821,040	684,526	730,792	1,023,656	1,749,834	
397,654	226,126	253,144	527,009	-	473,110	
7,733,398	7,178,931	8,348,194	6,209,156	7,571,262	7,982,176	
11,439,966	10,492,129	11,518,198	12,404,630	12,781,573	14,205,764	
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A	N/A	N/A	N/A
258,598	362,304	385,268	363,958	386,441	451,004	
719,729	658,824	651,339	562,150	3,725,147	3,708,905	
277,892	-	-	-	-	-	
1,256,219	1,021,128	1,036,607	926,108	4,111,588	4,159,909	
\$ 12,696,185	\$ 11,513,257	\$ 12,554,805	\$ 13,330,738	\$ 16,893,161	\$ 18,365,673	

Town of Kernersville
Changes in Fund Balances
Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

	Fiscal Year			
	2009	2010	2011	2012
Revenues by source				
Ad valorem taxes	\$ 12,521,037	\$ 12,550,214	\$ 12,642,432	\$ 12,687,750
Other taxes and licenses	228,614	229,200	232,061	246,837
Unrestricted intergovernmental	5,792,713	5,810,076	5,993,815	6,200,440
Restricted intergovernmental	2,002,952	936,279	1,086,336	1,926,452
Penalties and interest	230,393	106,130	90,490	35,242
Contributions and donations	814,931	828,882	883,787	889,458
Other revenues	278,612	204,547	201,349	216,806
Functionally related revenues	1,940,009	1,768,038	1,894,698	2,054,306
Total revenues	<u>23,809,261</u>	<u>22,433,366</u>	<u>23,024,968</u>	<u>24,257,291</u>
Expenditures by function				
General government	2,563,180	2,640,872	2,772,127	4,462,355
Public safety	10,868,418	11,506,087	11,503,502	11,613,615
Public service	9,043,625	6,243,526	6,142,344	6,423,007
Cultural and recreation	1,013,620	1,184,167	1,258,562	1,351,629
Debt service:				
Principal retirement	2,403,066	2,349,438	2,052,936	1,865,247
Interest and fiscal charges	593,917	530,396	458,547	401,301
Bond issuance costs	-	-	-	-
Total expenditures	<u>26,485,826</u>	<u>24,454,486</u>	<u>24,188,018</u>	<u>26,117,154</u>
Excess of revenue over (under) expenditures	<u>(2,676,565)</u>	<u>(2,021,120)</u>	<u>(1,163,050)</u>	<u>(1,859,863)</u>
Other financing sources (uses)				
Proceeds from installment purchases	588,310	396,300	646,200	1,383,000
Refunding bonds issued	-	-	-	-
Debt service - principal	-	-	-	-
Sale of capital assets	-	-	-	-
Transfers in	1,855,396	2,310,635	2,315,206	2,049,154
Transfers out	<u>(1,591,551)</u>	<u>(2,026,790)</u>	<u>(2,024,876)</u>	<u>(1,946,554)</u>
Total other financing sources	<u>852,155</u>	<u>680,145</u>	<u>936,530</u>	<u>1,485,600</u>
Net change in fund balances	<u>\$ (1,824,410)</u>	<u>\$ (1,340,975)</u>	<u>\$ (226,520)</u>	<u>\$ (374,263)</u>
Capital outlay included in total expenditures	<u>\$ 1,745,367</u>	<u>\$ 781,480</u>	<u>\$ 1,000,053</u>	<u>\$ 2,177,625</u>
Debt service as a percentage of noncapital expenditures	12.1%	12.2%	10.8%	9.5%

Source: Changes in Fund Balances - Governmental Funds (Exhibit 4 in Basic Financial Statements)

Table 4

Fiscal Year						
2013	2014	2015	2016	2017	2018	
\$ 12,885,047	\$ 13,151,903	\$ 13,528,449	\$ 14,062,364	\$ 15,318,974	\$ 16,242,913	
247,477	218,755	238,417	253,740	254,325	283,587	
6,194,669	6,036,044	6,606,027	7,095,351	7,392,058	7,977,157	
1,928,177	1,045,699	1,862,253	1,957,999	1,828,677	2,062,276	
58,630	16,949	60,236	58,732	77,046	166,013	
1,002,147	854,417	940,041	491,255	1,026,527	1,033,129	
49,990	8,283	59,496	-	149,485	90,143	
2,242,101	2,398,460	2,442,134	2,793,937	2,716,432	2,732,960	
<u>24,608,238</u>	<u>23,730,510</u>	<u>25,737,053</u>	<u>26,713,378</u>	<u>28,763,524</u>	<u>30,588,178</u>	
3,189,818	3,824,056	4,207,196	4,792,965	5,383,778	4,763,809	
11,688,938	12,547,679	12,509,496	13,529,860	16,852,211	18,339,615	
6,679,349	6,638,214	6,607,747	5,480,561	7,705,003	11,022,173	
1,465,046	1,364,430	1,799,026	2,636,038	2,071,640	2,103,393	
1,703,026	1,753,280	1,813,855	2,131,846	2,249,818	2,638,191	
367,301	345,661	257,074	150,832	131,774	130,753	
-	-	65,000	-	-	-	
<u>25,093,478</u>	<u>26,473,320</u>	<u>27,259,394</u>	<u>28,722,102</u>	<u>34,394,224</u>	<u>38,997,934</u>	
<u>(485,240)</u>	<u>(2,742,810)</u>	<u>(1,522,341)</u>	<u>(2,008,724)</u>	<u>(5,630,700)</u>	<u>(8,409,756)</u>	
1,905,500	1,364,750	2,102,469	2,647,400	9,361,500	10,042,035	
-	-	4,065,000	-	-	-	
-	-	(4,000,000)	-	-	-	
107,250	60,030	111,089	353,836	52,202	60,812	
510,370	768,594	745,701	151,827	730,645	706,702	
<u>(378,581)</u>	<u>(633,492)</u>	<u>(460,370)</u>	<u>(368,406)</u>	<u>(951,224)</u>	<u>(927,281)</u>	
<u>2,144,539</u>	<u>1,559,882</u>	<u>2,563,889</u>	<u>2,784,657</u>	<u>9,193,123</u>	<u>9,882,268</u>	
<u>\$ 1,659,299</u>	<u>\$ (1,182,928)</u>	<u>\$ 1,041,548</u>	<u>\$ 775,933</u>	<u>\$ 3,562,423</u>	<u>\$ 1,472,512</u>	
<u>\$ 1,168,080</u>	<u>\$ 2,768,218</u>	<u>\$ 2,172,524</u>	<u>\$ 2,439,094</u>	<u>\$ 4,615,485</u>	<u>\$ 9,823,669</u>	
8.7%	8.9%	8.3%	8.7%	8.0%	9.5%	

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Revenue Capacity Information

Town of Kernersville, North Carolina
Tax Revenues by Source
Governmental Funds
Last Ten Fiscal Years
(Modified Accrual Basis of Accounting)

Table 5

Fiscal Year	Ad Valorem Property Tax ^a	Local Option Sales & Use Tax	Utilities Franchise and Sales Tax ^b	Hotel/Motel Occupancy Tax	Alcoholic Beverage Tax ^c
2009	\$ 12,521,037	\$ 3,484,244	\$ 1,329,357	\$ 86,315	\$ 326,407
2010	12,550,214	3,462,757	1,409,283	89,538	241,991
2011	12,642,432	3,490,607	1,406,583	85,142	306,317
2012	12,687,750	3,726,298	1,397,145	94,641	353,031
2013	12,885,047	3,702,977	1,424,476	95,952	363,487
2014	13,151,903	3,751,318	1,479,625	106,656	398,872
2015	13,528,449	4,239,410	1,830,850	113,742	452,601
2016	14,062,364	4,605,164	1,916,865	137,964	484,780
2017	15,318,974	4,833,178	1,883,992	143,670	586,746
2018	16,242,913	5,330,872	1,947,550	161,720	603,277
Change from 2009 to 2018	29.7%	53.0%	46.5%	87.4%	84.8%

^a Ad valorem property taxes are the Town's most significant source of revenues. All other taxes and revenues are either comparatively insignificant or levied by a governmental entity other than the Town of Kernersville. Property tax increase is due to continued real property value growth and continued diligence in the collection of property taxes. This year's collection rate was 99.29%.

^b Includes taxes on piped natural gas, electricity, telecommunication services and video programming.

^c The Alcoholic Beverage Tax includes distributions from both the State and Forsyth County.

Town of Kernersville, North Carolina
Direct and Overlapping Property Tax Rates
Last Ten Fiscal Years
(Rate per \$100 of Assessed Value)

Table 6

Fiscal Year	Town Direct Rates			Forsyth County ^b	Guilford County ^{b,c}
	Basic Rate	General Obligation Streets Debt Service ^a	Total Direct		
2009	0.5000	0.05	0.5500	0.6740	0.7374
2010	0.4475	0.05	0.4975	0.6740	0.7374
2011	0.4475	0.05	0.4975	0.6740	0.7374
2012	0.4475	0.05	0.4975	0.6740	0.7824
2013	0.4475	0.05	0.4975	0.6740	0.7804
2014	0.4775	0.05	0.5275	0.6787	0.7700
2015	0.4925	0.05	0.5425	0.7168	0.7700
2016	0.4925	0.05	0.5425	0.7310	0.7600
2017	0.5200	0.05	0.5700	0.7310	0.7550
2018	0.5045	0.05	0.5545	0.7235	0.7305

Source: Forsyth County Tax Office and Guilford County Tax Office

Note: As approved by the citizens of Kernersville in the Bond Referendum held in the November General Election of 1998, the Town has established a special assessment equal to five cents on the tax rate in order to retire the debt generated by the sale of long-term street bonds sold on May 4, 2004. These street bonds were subsequently refunded on July 29, 2014, upon issuance of the new general obligation bond funding.

The Town's basic property tax rate may be increased only by a majority vote of the Town's Board of Aldermen.

Note: Rates for debt service are set based on each year's requirements.

^a *A separate debt service fund has not been established, but revenues equal to five cents on the tax rate are used each year to pay the annual bond debt.*

^b *Overlapping rates are those of local and county governments that apply to property owners within the Town of Kernersville.*

^c *In 2009, the Town expanded into Guilford County under an annexation agreement.*

**Town of Kernersville, North Carolina
Principal Property Taxpayers
Current Year and Nine Years Ago**

Table 7

Taxpayer	2018			2009		
	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value	Taxable Assessed Value	Rank	Percentage of Total Town Taxable Assessed Value
Deere-Hitachi	\$ 112,218,395	1	4.37%	\$ 37,676,520	1	1.64%
Winston-Salem Healthcare Development	100,187,015	2	3.90%			
LE Pope Building Company Inc	42,520,108	3	1.66%	14,843,400	8	0.67%
Hawthorne Midway	34,394,409	4	1.34%			
Boma North Carolina LLC	27,474,482	5	1.07%			
Wal-Mart	26,249,594	6	1.02%	17,062,400	4	0.77%
Grass America Inc	23,111,993	7	0.90%	21,249,130	3	0.95%
DLS Kernersville LLC	22,118,485	8	0.86%	21,426,940	2	0.96%
Duke Energy Corp	18,979,621	9	0.74%			
Complete Properties Inc	18,825,068	10	0.73%			
	<u>\$ 426,079,170</u>		<u>16.59%</u>	<u>\$ 112,258,390</u>		<u>4.99%</u>

Source: Forsyth County Tax Office

**Town of Kernersville, North Carolina
Property Tax Levies and Collections
Last Ten Fiscal Years**

Table 8

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2009	\$ 12,901,217	\$ 12,666,973	98.18%	\$ 205,127	\$ 12,872,100	99.77%
2010	13,044,986	12,748,806	97.73%	270,097	13,018,903	99.80%
2011	13,216,546	12,881,345	97.46%	294,167	13,175,512	99.69%
2012	13,048,827	12,755,708	97.75%	243,986	12,999,694	99.62%
2013	13,178,975	12,953,063	98.29%	209,874	13,162,937	99.88%
2014	13,538,090	13,369,800	98.76%	149,664	13,519,464	99.86%
2015	13,820,404	13,730,922	99.35%	70,051	13,800,973	99.86%
2016	14,288,679	14,224,114	99.55%	43,398	14,267,512	99.85%
2017	15,812,058	15,670,133	99.10%	74,297	15,744,430	99.57%
2018	16,593,014	16,474,026	99.28%	-	16,474,026	99.28%

Sources: Forsyth County and Guilford County Tax Offices

Town of Kernersville, North Carolina
Assessed Value and Actual Value of Taxable Property
Last Ten Fiscal Years

Fiscal Year Ended June 30	Residential Property	Commercial Property	Industrial Property	Public Service Companies Property
2009	\$ 1,071,923,982	\$ 649,891,522	\$ 22,817,874	\$ 42,235,983
2010	1,366,205,630	669,160,371	66,381,566	44,319,081
2011	1,378,909,152	624,082,003	74,881,666	49,694,428
2012	1,379,732,482	607,007,003	64,306,520	45,617,523
2013	1,369,830,089	613,351,703	93,149,696	48,352,263
2014	1,245,558,247	542,639,948	83,699,860	38,060,695
2015	1,551,270,046	522,712,586	149,963,590	53,157,539
2016	1,541,668,384	530,690,186	185,919,060	56,134,541
2017	1,245,436,246	905,417,895	122,502,253	55,527,861
2018	1,239,326,123	1,122,178,626	134,256,608	58,599,370

Source: Forsyth County Tax Assessor's Office TR-1 Report. & Guilford County Tax Assessor's TR-1 Report

Note: Property in Forsyth County is reassessed once every four years. Property in Guilford County is reassessed once every eight years.

Total Taxable Assessed Value includes: all residential, commercial and industrial real property, public service company property less tax-exempt property (no vehicles or personal property included).

Actual Taxable Value includes: all Total Taxable Assessed Value plus registered motor vehicles, personal property and discoveries, net of releases.

Table 9

Less: Tax-Exempt Property	Total Taxable Assessed Value	Total Direct Tax Rate	Actual Taxable Value	Assessed Value as a Percentage of Actual Value
\$ 10,741,776	\$ 1,776,127,585	0.5500	\$ 2,228,066,118	79.72%
12,774,988	2,133,291,660	0.4975	2,298,013,998	92.83%
13,050,510	2,114,516,739	0.4975	2,621,589,607	80.66%
14,560,840	2,082,102,688	0.4975	2,571,394,840	80.97%
34,740,649	2,089,943,102	0.4975	2,600,402,211	80.37%
32,354,749	1,877,604,001	0.5275	2,550,261,901	73.62%
44,872,741	2,232,231,020	0.5425	2,501,712,811	89.23%
42,332,096	2,272,080,075	0.5425	2,580,794,101	88.04%
45,517,724	2,283,366,531	0.5700	2,719,792,281	83.95%
49,358,741	2,505,001,986	0.5545	2,696,929,040	92.88%

Debt Capacity Information

Town of Kernersville, North Carolina
Ratios of Outstanding Debt by Type
Last Ten Fiscal Years

Table 10

Fiscal Year	Governmental Activities			Business-Type Activities	Total Primary Government	Percentage of County Personal Income	Per Capita ^a
	General Obligation Bonds	State Revolving Loan	Installment Purchases	Installment Purchases			
2009	\$ 6,000,000	\$ 6,400,000	\$ 3,468,391	\$ 147,111	\$ 16,015,502	120.97%	\$ 806
2010	5,600,000	6,000,000	2,315,253	109,410	14,024,663	n/a	716
2011	5,200,000	5,600,000	1,708,517	74,079	12,582,596	n/a	610
2012	4,800,000	5,200,000	2,026,270	37,621	12,063,891	n/a	514
2013	4,400,000	4,800,000	3,028,744	-	12,228,744	n/a	498
2014	4,000,000	4,400,000	3,440,214	-	11,840,214	n/a	494
2015	3,660,000	4,000,000	4,533,828	178,938	12,372,766	n/a	512
2016	3,255,000	3,600,000	5,894,487	134,988	12,884,475	n/a	532
2017	2,850,000	3,200,000	13,811,170	389,201	20,250,371	n/a	819
2018	2,445,000	2,800,000	21,512,884	274,777	27,032,661	n/a	1,074

Note: Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

^a See Table 14 for personal income for Forsyth County and population data for the Town of Kernersville. These ratios are calculated using population for the prior calendar year.

Town of Kernersville, North Carolina
Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years

Table 11

Fiscal Year	General Obligation Bonds	Total	Percentage of G.O. Debt to Actual Taxable Value of Property ^a	Per Capita ^b
2009	\$ 6,000,000	\$ 6,000,000	0.2611%	\$ 268.59
2010	5,600,000	5,600,000	0.2136%	243.51
2011	5,200,000	5,200,000	0.1984%	226.12
2012	4,800,000	4,800,000	0.1867%	201.83
2013	4,400,000	4,400,000	0.1692%	184.70
2014	4,000,000	4,000,000	0.1568%	166.49
2015	3,660,000	3,660,000	0.1463%	151.38
2016	3,255,000	3,255,000	0.1261%	134.30
2017	2,850,000	2,850,000	0.1048%	115.24
2018	2,445,000	2,445,000	0.0833%	97.16

Note: Details regarding the Town's outstanding debt can be found in the notes to the financial statements.

^a See Table 5 for property value data.

^b See Table 14 for population data.

Town of Kernersville, North Carolina
Direct and Overlapping Governmental Activities Debt
June 30, 2018

Table 12

<u>Governmental Unit</u>	<u>Debt Outstanding</u>	<u>Estimated Percentage Applicable^{a & b}</u>	<u>Estimated Share of Overlapping Debt</u>
Debt repaid with property taxes:			
Forsyth County's general obligation debt	\$ 552,243,524	7.020%	\$ 38,767,495
Town of Kernersville's direct debt			<u>26,757,884</u>
Total direct and overlapping debt			<u><u>\$ 65,525,379</u></u>

^a Source: Forsyth County

^b For debt repaid with property taxes, the percentage of overlapping debt applicable is estimated using taxable assessed property values. Applicable percentages were estimated by determining the portion of another governmental unit's taxable assessed value which is within the County's boundaries and dividing it by each unit's total taxable assessed value. This approach was also used for the Town of Kernersville's other debt.

Town of Kernersville, North Carolina
Legal Debt Margin Information
Governmental Funds
Last Ten Fiscal Years

	Fiscal Year			
	2009	2010	2011	2012
Debt limit	\$ 183,841,120	\$ 209,725,569	\$ 208,744,800	\$ 205,711,587
Total net debt applicable to limit	<u>17,689,965</u>	<u>16,015,502</u>	<u>14,024,663</u>	<u>12,063,891</u>
Legal debt margin	<u>\$ 166,151,155</u>	<u>\$ 193,710,067</u>	<u>\$ 194,720,137</u>	<u>\$ 193,647,696</u>

Note: Under state finance law, the Town's outstanding general obligation debt should not exceed 8%

Table 13**Legal Debt Margin Calculation for Fiscal Year 2018**

Assessed value	<u>\$ 2,934,344,454</u>
Debt limit (8% of assessed value)	<u>\$ 234,747,556</u>
Debt applicable to limit:	
General obligation bonds	2,445,000
Revolving loan payable	2,800,000
Installment purchases	<u>21,787,661</u>
Total net debt applicable to limit	<u>27,032,661</u>
Legal debt margin	<u>\$ 207,714,895</u>

Fiscal Year

<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 208,032,177	\$ 204,020,952	\$ 200,137,025	\$ 206,463,528	\$ 217,583,382	\$ 234,747,556
<u>12,228,744</u>	<u>11,840,214</u>	<u>12,372,766</u>	<u>12,749,487</u>	<u>20,250,371</u>	<u>27,032,661</u>
<u>\$ 195,803,433</u>	<u>\$ 192,180,738</u>	<u>\$ 187,764,259</u>	<u>\$ 193,714,041</u>	<u>\$ 197,333,011</u>	<u>\$ 207,714,895</u>

Demographic and Economic Information

**Town of Kernersville, North Carolina
Demographic and Economic Statistics
Last Ten Calendar Years**

Table 14

<u>Calendar Year</u>	<u>Population</u> ¹	<u>Forsyth County Personal Income</u> ¹	<u>Per Capita Personal Income</u> ¹	<u>Median Age</u> ¹	<u>School Enrollment</u> ²	<u>Unemployment Rate</u> ³
2009	22,368	\$ 13,443,142	\$ 39,041	37.8	7,049	9.6%
2010	22,997	12,625,034	36,223	36.7	6,924	10.1%
2011	23,199	13,022,068	37,059	37.2	7,020	10.0%
2012	23,782	13,489,313	38,003	37.4	7,839	9.0%
2013	23,823	14,176,253	39,583	37.4	7,746	9.5%
2014	24,025	14,354,615	N/A	37.5	7,578	7.5%
2015	24,177	15,137,006	N/A	37.5	10,697 ⁴	5.5%
2016	24,237	N/A	N/A	36	10,202 ⁴	4.9%
2017	24,730	N/A	N/A	0	9,939 ⁴	4.5%
2018	25,164	N/A	N/A	0	10,225 ⁴	4.1%

Note: Personal Income, Per Capita Personal Income, Median Age and Unemployment rates are not available for the Town of Kernersville. Statistics for Forsyth County were used.

¹ Office of State Budget and Management, Information for Forsyth County was used.

² Winston-Salem/Forsyth County School System.

³ Employment Security Commission; Forsyth County rates were used.

⁴ Beginning in calendar year 2015, school enrollment numbers include data from Glenn High School, Sage Elementary, and Union Cross Academy; Prior to 2015, this data was previously not available.

**Town of Kernersville, North Carolina
Principal Employers for Forsyth County
Current Year and Nine Years Ago**

Table 15

Employer	2018 ¹			2009 ²		
	Number of Employees	Rank	Percentage of Total County Employment	Number of Employees	Rank	Percentage of Total County Employment
Wake Forest University Baptist Medical Center	12,873	1	7.4%	11,570	1	7.0%
Novant Health	8,145	2	4.7%	7,500	3	4.5%
Winston-Salem/Forsyth County School System	6,860	3	3.9%	7,550	2	4.6%
Reynolds American ^b	3,000	4	1.7%	1,570	9	1.0%
Wake Forest University	2,784	5	1.6%	2,310	7	1.4%
Wells Fargo Bank ^a	2,745	6	1.6%	3,055	5	1.8%
Hanesbrands, Inc. ^c	2,500	7	1.4%	3,560	4	2.2%
City of Winston-Salem	2,420	8	1.4%	2,360	6	1.4%
Forsyth County	2,275	9	1.3%	2,140	8	1.3%
BB&T Corporation	2,134	10	1.2%	1,400	10	0.8%
Total	45,736		26.2%	43,015		26.0%

¹ estimates as of June 2018

² estimates as of June 2009

^a formerly Wachovia Corporation

^b formerly R.J. Reynolds Tobacco Company

^c formerly Sara Lee Personal Products

Sources: Number of employees provided by the Greater Winston-Salem Chamber of Commerce, as reported by individual companies and institutions. County civilian labor force information used to calculate percentage of total employment provided by the North Carolina Employment Security Commission.

Town of Kernersville, North Carolina
Full-Time Equivalent Town Government Employees by Functions/Programs
Last Ten Fiscal Years

Table 16

Function/Program	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
General government:										
Governing body	6	6	6	6	6	6	6	6	6	6
Administration	3	3	3	3	3	3	3	3	3	3
Finance	5	5	5	6	6	7	6	5	6	6
Information										
Technology	3	3	3	3	3	3	3	4	4	4
Planning & Zoning	4	4	4	4	4	4	4	4	4	4
Inspections	6	6	6	5	5	6	5	4	6	6
Personnel	3	3	4	4	4	5	5	4	4	4
General Services	3	3	2	3	3	3	3	4	4	5
Police:										
Officers	66	68	68	63	65	67	67	68	67	67
Civilians	19	15	15	20	20	20	20	19	20	20
Fire:										
Firefighters and officers	67	68	68	68	70	73	71	71	70	70
Civilians	1	1	1	1	1	1	1	1	1	1
Public Service:										
Engineering	3	3	3	2	2	2	3	2	1	1
Street	17	17	17	19	20	17	21	16	17	16
Sanitation	23	23	25	22	22	22	20	18	16	18
Transportation	6	6	6	4	3	2	-	-	-	-
Public Works										
Administration	6	5	4	4	3	5	5	4	4	4
Central Maintenance	8	7	9	8	9	9	8	7	8	8
Stormwater Enterprise	5	5	5	5	5	5	3	4	8	8
Cultural & Recreation:										
Recreation	9	8	8	8	10	9	11	14	15	15
Total	263	259	262	258	264	269	265	258	264	266

Source: Town's Payroll Department

Operating Information

Town of Kernersville, North Carolina
Operating Indicators by Function/Program
Last Ten Fiscal Years

Table 17

Function/Program	Fiscal Year									
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Police:										
Physical arrests	2,901	850	851	1,077	1,887	1,495	1,943	792	1,698	1,973
Parking violations	373	301	180	170	160	59	84	25	47	39
Traffic violations	1,300	3,148	3,211	4,859	4,658	3,735	7,393	4,445	5,606	5,516
Fire:										
Emergency responses	2,489	2,587	2,740	2,642	2,798	3,018	2,973	2,780	3,007	3,155
Fires extinguished	180	124	123	83	108	215	136	117	81	122
Inspections	1,179	1,088	1,284	1,872	1,755	1,225	932	678	485	1,203
Refuse collection:										
Refuse collected (tons per year)	13,248	13,384	13,283	13,152	12,990	13,408	13,350	13,865	14,442	14,443
Recyclables collected (tons per year)	4,311	4,277	5,878	4,502	4,291	2,123	2,131	2,248	2,394	2,411
Other public works:										
Street resurfacing (miles)	1.8	1.6	3.3	-	2.2	3.1	-	-	-	3.4
Potholes repaired (square yards)	1,654	1,512	1,115	2,969	1,393	1,792	1,496	224	331	433
Parks and recreation:										
Athletic field permits issued	32	32	32	32	37	32	54	57	57	57

Sources: Various Town departments

Note: Indicators are not available for the general government function.

Town of Kernersville, North Carolina
Capital Asset Statistics by Function/Program
Last Ten Fiscal Years

Function/Program	Fiscal Year			
	2009	2010	2011	2012
Police:				
Stations	1	1	1	1
Policemen and officers	66	68	68	63
Annual police calls to which responded	41,136	34,676	37,836	41,880
Annual traffic accidents	1,300	1,242	1,357	1,346
Annual number of arrests (18 years and over)	2,901	1,271	1,202	2,575
Fire:				
Stations	4	4	4	4
Firemen and officers	67	68	68	68
Annual fire calls	2,532	2,587	2,740	2,642
Building permits issued:	253	215	173	144
Value of building permits issued	\$ 57,883,794	\$ 15,570,649	\$ 10,376,351	\$ 11,464,132
Public services:				
Streets (miles)	94.590	94.696	95.288	94.567
Streetlights	3,042	3,098	3,100	3,100
Traffic signals	28	28	28	28
Parks and recreation:				
Parks	7	7	7	7
Total acreage of parks	294	294	294	294
Lighted tennis courts	6	6	6	6
Recreation centers	1	1	1	1
Baseball/softball diamonds	3	3	3	3
Soccer fields:	5	5	5	5
Joint-use agreements:				
Joint Use Soccer Fields	-	-	-	-
Joint Use Ball Fields (lit)	-	-	-	-
Fishing and boating lakes:				
Owned and operated by the Town	2	2	2	2
Owned and operated by Forsyth County	1	1	1	1

Sources: Various Town Departments

Note: No capital asset indicators are available for the general government function

Table 18

Fiscal Year						
2013	2014	2015	2016	2017	2018	
1	1	1	1	1	1	1
65	67	67	68	67	67	67
39,421	36,724	44,940	48,242	72,117	72,117	51,157
1,309	1,345	1,311	1,503	1,575	1,575	1,463
1,324	1,170	2,320	1,188	1,698	1,698	1,973
4	4	4	4	4	4	4
70	73	71	71	70	70	70
2,798	3,018	2,973	2,780	3,007	3,007	3,155
237	256	184	243	3,191	3,191	3,594
\$ 38,875,388	\$ 135,649,973	\$ 23,931,938	\$ 51,977,005	\$ 71,172,206	\$ 71,172,206	\$ 58,920,757
94.480	94.868	95.267	95.792	97,456.000	97,456.000	99,530.000
3,106	3,192	3,192	3,192	3,192	3,192	3,281
28	33	33	34	34	34	34
7	9	9	9	9	9	9
294	327	327	327	327	327	327
6	6	6	6	6	6	6
1	1	1	1	1	1	1
3	3	3	3	3	3	3
5	7	11	7	7	7	7
-	-	4	4	4	4	4
-	-	7	7	7	7	7
2	2	2	2	2	2	2
1	1	1	1	1	1	1

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Supplementary Information

Compliance Section

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Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Kernersville, North Carolina, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Kernersville's basic financial statements, and have issued our report thereon dated October 31, 2018.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Dixon Hughes Goodman LLP

**High Point, North Carolina
October 31, 2018**

Independent Auditors' Report on Compliance for the Major State Program and on Internal Control over Compliance in Accordance with Applicable Sections of OMB Uniform Guidance and the State Single Audit Implementation Act

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

Report on Compliance for the Major State Program

We have audited Town of Kernersville, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on its major state program for the year ended June 30, 2018. The Town of Kernersville's major state program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of state statutes, regulations, and the terms and conditions of its state awards applicable to its state program.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of the Town of Kernersville's major state program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) as described in the Audit Manual for Governmental Auditors in North Carolina and the State Single Audit Implementation Act. Those standards, applicable sections of the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Kernersville's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major state program. However, our audit does not provide a legal determination on the Town of Kernersville's compliance.

Opinion on the Major State Program

In our opinion, the Town of Kernersville complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of the Town of Kernersville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Kernersville's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major state program and to test and report on internal control over compliance in accordance with applicable sections of the Uniform Guidance and the State Single Audit Implementation Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town of Kernersville's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on applicable sections of Uniform Guidance and the State Single Audit Implementation Act. Accordingly, this report is not suitable for any other purpose.

Dixon Hughes Goodman LLP

**High Point, North Carolina
October 31, 2018**

Schedule of Findings and Questioned Costs

I. Summary of Auditors' Results

Financial Statements

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

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported
- Noncompliance material to financial statements noted? Yes No

State Awards

Internal control over major state programs:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported
- Noncompliance material to state award Yes No

Type of auditors' report issued on compliance for major state program:

Unmodified

Any audit findings disclosed that are required to be reported in accordance with the State Single Audit Implementation Act?

Yes No

Identification of major state program:

Powell Bill

II. Financial Statement Findings

There were no findings related to the financial statements for the fiscal year ended June 30, 2018.

III. State Awards Findings and Questioned Costs

There were no findings related to state awards for the fiscal year ended June 30, 2018.

Summary Schedule of Prior Year Audit Findings

There were no prior year audit findings.

Town of Kernersville, North Carolina
Schedule of Expenditures of Federal and State Awards
Year Ended June 30, 2018

Schedule 18

<u>Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Grant Number</u>	<u>Federal (Direct and Pass-through) Expenditures</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
Federal grants:					
<u>U.S. Department of Justice:</u>					
Direct programs:					
Bullet-Proof Vest Partnership	16.607		\$ 5,511		\$ 17,384
Federal Asset Forfeiture Funds	16.922	NC0-340100	110,086		68,824
Organized Crime Drug Enforcement Task Forces	16.000	50CD04984	3,024		
FBI Joint Terror Task Force			3,999		
			<u>117,109</u>		<u>68,824</u>
Passed through the N.C. Department of Public Safety:					
Governor's Crime Commission Patrol Rifle Replacement #PROJ010627	16.738	2013-DJ-BX-0189	<u>19,252</u>		<u>11,800</u>
Total U.S. Department of Justice			<u>141,872</u>		<u>98,008</u>
<u>U.S. Department of Transportation:</u>					
Passed through the N.C. Department of Transportation:					
N.C. Governor's Highway Safety Program:					
Operation Crash Reconstruct	20.600	PT-15-09-30	5,460		
N.C. GHSP DWI Task Force Year 5	20.601	M2HVE-15-08-07	46,563		
Passed through the City of Winston-Salem MPO:					
Enhanced Mobility of Seniors and Individuals with Disabilities Program (Section 5310)	20.513	14-ED-921	<u>24,938</u>		<u>23,281</u>
Total U.S. Department of Transportation			<u>76,961</u>		<u>23,281</u>
Total assistance - Federal programs			<u>218,833</u>		<u>121,289</u>
State grants:					
<u>N.C. Department of Commerce</u>					
Direct programs:					
Downtown Revitalization		2017-027-1257-1534		<u>\$ 100,000</u>	
<u>N.C. Department of Transportation</u>					
Direct programs:					
Powell Bill				<u>651,827</u>	
Total assistance - State programs				<u>751,827</u>	
Total assistance			<u>\$ 218,833</u>	<u>\$ 751,827</u>	<u>\$ 121,289</u>

Note to Schedule of Expenditures of Federal and State Awards

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards (SEFSA) includes the federal and state grant activity of the Town of Kernersville under the programs of the federal government and the State of North Carolina for the year ended June 30, 2018. The information in this SEFSA is presented in accordance with the requirements of *Title 2 U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town it is not intended to and does not present the financial position, changes in net position, or cash flows of the Town.

2. Summary of Significant Accounting Policies

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

The Town of Kernersville has elected to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.