

CITY OF TRINITY, NORTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2017

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MEMBERS OF CITY COUNCIL

Jesse Hill, Mayor
Gene Byerly
Stephen Lawing
Tommy Johnson
Jack Carico
Don Payne

ADMINISTRATIVE AND FINANCIAL STAFF

Debbie Hinson, City Manager/Finance Director

City of Trinity, North Carolina
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June 30, 2017

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FINANCIAL SECTION



GIBSON & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

To the Honorable Mayor
and Members of the City Council
City of Trinity, 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 City of Trinity, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Trinity, North Carolina as of June 30, 2017, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America..

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 4 through 13 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, on pages 47 and 48, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The combining and individual fund statements, budgetary schedules and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of

America. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund statements, budgetary schedules and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 31, 2017 on our consideration of City of Trinity's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering City of Trinity's internal control over financial reporting and compliance.

Jehson + Company, P.A.

Winston-Salem, North Carolina
October 31, 2017

Management Discussion and Analysis

Management's Discussion and Analysis

As management of the City of Trinity, we offer readers of the City of Trinity's financial statements this narrative overview and analysis of the financial activities of the City of Trinity for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the City's financial statements, which follow this narrative.

Financial Highlights

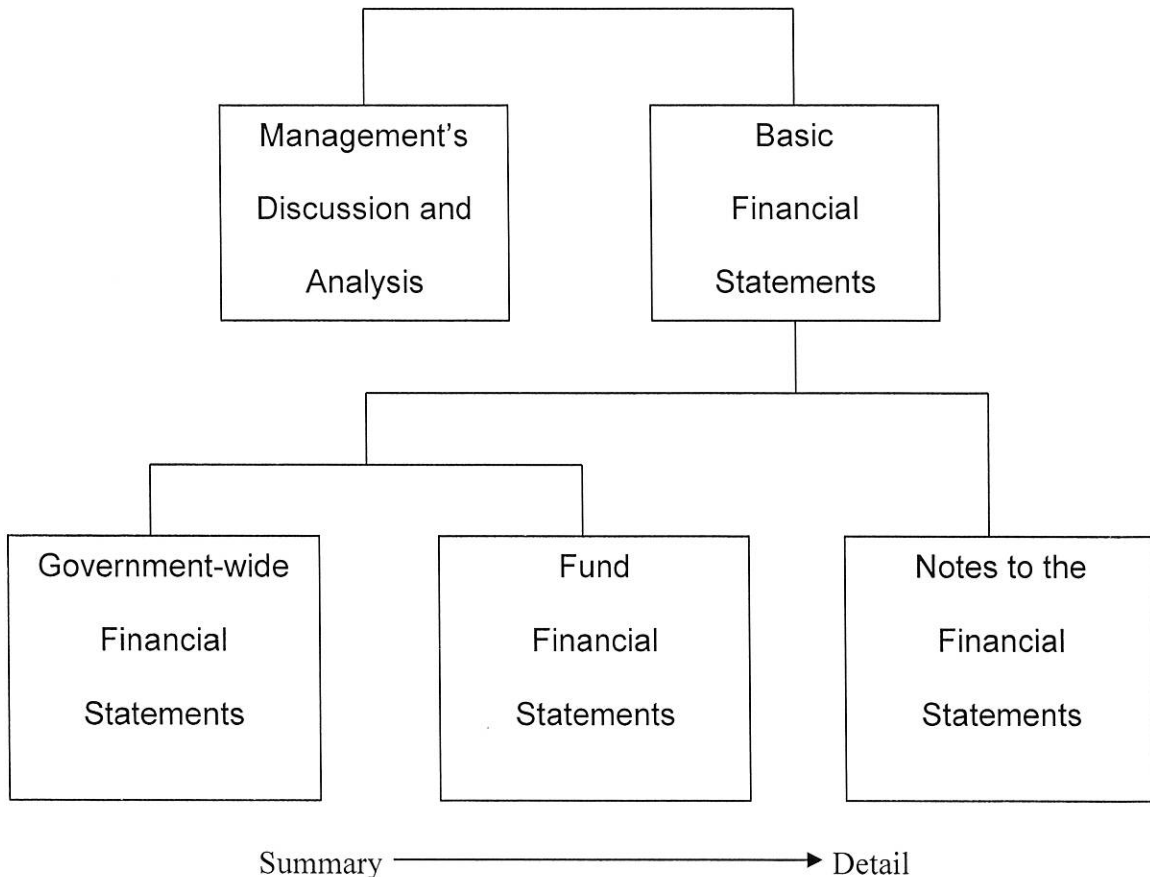
- The assets and deferred outflows of resources of the City of Trinity exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$23,886,264 (*net position*).
- The government's total net position decreased by \$178,087, primarily due to a decrease in the business-type activities net position.
- As of the close of the current fiscal year, the City of Trinity's governmental funds reported combined ending fund balances of \$7,799,469 with a net increase of \$377,232 in fund balance. Approximately 28.10% of this total amount or \$2,191,645 is non-spendable or restricted and committed.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,607,824, or 210.86% of total general fund expenditures for the fiscal year.
- The City of Trinity's total debt decreased by \$230,080 (1.66%) during the current fiscal year. The key factor in this decrease was the payments on the debt.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the City of Trinity's basic financial statements. The City'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 City 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 City of Trinity.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the City'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 City'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 City's individual funds. Budgetary information required by the North Carolina General Statutes also can be found in this part of the statements.

Management Discussion and Analysis

City of Trinity

Government-Wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City'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 City's financial status as a whole.

The two government-wide statements report the City's net position and how it has changed. Net position is the difference between the City'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 City's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the City's basic services such as public safety, public works (streets, sanitation and stormwater), code enforcement, parks and recreation, and general administration. Sales and property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the City charges customers to provide. These include the sewer services offered by the City of Trinity.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the City'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 City of Trinity, 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 City's budget ordinance. All of the funds of City of Trinity 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 City'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 City's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

City of Trinity

The City of Trinity 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 City, the management of the City, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the City to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the City complied with the budget ordinance and whether or not the City 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 council; 2) the final budget as amended by the council; 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 Fund – The City of Trinity has a proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The City of Trinity uses the enterprise fund to account for its sewer activity. This fund is the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 24 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the City of Trinity's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 47 of this report.

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

Management Discussion and Analysis
City of Trinity

Government-Wide Financial Analysis

City of Trinity's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Current and other assets	\$ 7,858,677	\$ 7,500,623	\$ 931,724	\$ 1,595,600	\$ 8,790,401	\$ 9,096,223
Capital assets	2,587,486	2,661,865	26,207,187	26,280,486	28,794,673	28,942,351
Deferred outflows of resources	76,378	21,774	20,028	5,054	96,406	26,828
Total assets and deferred outflows of resources	10,522,541	10,184,262	27,158,939	27,881,140	37,681,480	38,065,402
Long-term liabilities outstanding	74,071	12,226	13,221,925	13,525,805	13,295,996	13,538,031
Other liabilities	75,576	92,734	417,415	358,806	492,991	451,540
Deferred inflows of resources	4,952	8,590	1,277	2,890	6,229	11,480
Total liabilities and deferred inflows of resources	154,599	113,550	13,640,617	13,887,501	13,795,216	14,001,051
Net position:						
Net investment in capital assets	2,587,486	2,661,865	12,729,791	12,490,245	15,317,277	15,152,110
Restricted	2,125,550	3,131,283	-	-	2,125,550	3,131,283
Unrestricted	5,654,906	4,277,564	788,531	1,503,394	6,443,437	5,780,958
Total net position	\$ 10,367,942	\$ 10,070,712	\$ 13,518,322	\$ 13,993,639	\$ 23,886,264	\$ 24,064,351

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the City of Trinity exceeded liabilities and deferred inflows by \$23,886,264 as of June 30, 2017. The City's net position decreased by \$178,087 for the fiscal year ended June 30, 2017. However, the largest portion (64.13%) reflects the City's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The City of Trinity uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City of Trinity's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the City of Trinity's net position, \$2,125,550 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$6,443,437 is unrestricted.

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

- Continued diligence in the collection of property taxes by Randolph County in maintaining a tax collection rate of 99.21% in 16-17, which was better than the statewide average of 99.02%.
- Continued diligence in monitoring and evaluating options for reducing expenditures without adversely affecting services.

Management Discussion and Analysis
City of Trinity

City of Trinity's Changes in Net Position
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Revenues:						
Program revenues:						
Charges for services	\$ 466,277	\$ 469,439	\$ 709,294	\$ 638,385	\$ 1,175,571	\$ 1,107,824
Operating grants and contributions	189,324	154,033	-	-	189,324	154,033
Capital grants and contributions	-	-	94,809	274,757	94,809	274,757
General revenues:						
Property taxes	557,329	551,030	-	-	557,329	551,030
Other taxes	11,222	16,398	-	-	11,222	16,398
Grants and contributions not restricted to specific programs	1,791,985	1,617,147	-	-	1,791,985	1,617,147
Other	24,208	12,012	8,408	7,508	32,616	19,520
Total revenues	3,040,345	2,820,059	812,511	920,650	3,852,856	3,740,709
Expenses:						
General government	593,215	544,873	-	-	593,215	544,873
Public safety	77,779	74,576	-	-	77,779	74,576
Public works	920,507	781,971	-	-	920,507	781,971
Economic development	5,000	-	-	-	5,000	-
Special appropriations	42,701	36,042	-	-	42,701	36,042
Interest on long-term debt	-	-	-	-	-	-
Water and sewer	-	-	2,391,741	2,301,083	2,391,741	2,301,083
Total expenses	1,639,202	1,437,462	2,391,741	2,301,083	4,030,943	3,738,545
Increase (decrease) in net position before transfers	1,401,143	1,382,597	(1,579,230)	(1,380,433)	(178,087)	2,164
Transfers	(1,103,913)	(835,500)	1,103,913	835,500	-	-
Increase (decrease) in net position	297,230	547,097	(475,317)	(544,933)	(178,087)	2,164
Net position, beginning	10,070,712	9,523,615	13,993,639	14,538,572	24,064,351	24,062,187
Net position, June 30	\$ 10,367,942	\$ 10,070,712	\$ 13,518,322	\$ 13,993,639	\$ 23,886,264	\$ 24,064,351

Governmental activities. Governmental activities increased the City's net position by \$297,230. Key elements of this increase are as follows:

- Governmental activities reflect a net increase of \$1,401,143 prior to transfers to the Sewer Fund. The net increase of \$ 297,230 is a result General Fund savings of revenues collected over expenditures after transfers.

Business-type activities. Business-type activities decreased the City of Trinity's net position by \$475,317. Key elements of this decrease are as follows:

- City's sewer system, Turnpike Industrial Park, purchase of equipment, sewer debt payments, and additional principal payments of sewer debt.

Financial Analysis of the City's Funds

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

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

The general fund is the chief operating fund of the City of Trinity. At the end of the current fiscal year, the City of Trinity's fund balance available in the General Fund was \$5,607,824, while total fund balance reached \$7,733,374. The City currently has an available fund balance of 210.86% of general fund expenditures, and total fund balance represents 290.79% of the same amount.

At June 30, 2017, the governmental funds of the City of Trinity reported a combined fund balance of \$7,799,469 with a net increase in fund balance of \$377,232. Included in this change in fund balance is an increase in fund balance in the General Fund of \$375,159 and an increase in the Parks and Recreation Fund of \$2,073.

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

Proprietary Funds. The City of Trinity's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Sewer Fund at the end of the fiscal year amounted to \$788,531. The total decrease in net position for the fund was \$475,317. The major change in net position in the Sewer Fund is a result of interest paid on sewer debt.

Management Discussion and Analysis
City of Trinity

Capital Asset and Debt Administration

Capital assets. The City of Trinity's investment in capital assets for its governmental and business-type activities as of June 30, 2017, totals \$26,207,187 (net of accumulated depreciation). These assets include land, construction in progress, buildings, sewer lines, equipment, and vehicles.

Major capital asset transactions during the year include the following:

- Construction in progress for sewer capital assets.
- New equipment purchases for Public Works

**City of Trinity's Capital Assets
(net of depreciation)**

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Land	\$ 610,000	\$ 610,000	\$ 14,186	\$ 14,186	\$ 624,186	\$ 624,186
Building and improvements	598,028	622,718	4,222	4,367	602,250	627,085
Land improvements	2,674	2,794	-	-	2,674	2,794
Furniture and equipment	96,473	117,155	53,759	1	150,232	117,156
Sewer system	-	-	25,549,065	25,896,117	25,549,065	25,896,117
Construction in progress	13,665	13,665	574,755	359,559	588,420	373,224
Vehicles	46,741	39,406	11,200	6,256	57,941	45,662
Infrastructure	1,219,905	1,256,127	-	-	1,219,905	1,256,127
Total	\$ 2,587,486	\$ 2,661,865	\$ 26,207,187	\$ 26,280,486	\$ 28,794,673	\$ 28,942,351

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

Long-term Debt. As of June 30, 2017, the City of Trinity had total debt outstanding of \$29,867 for compensated absences, \$12,741,409 for general obligation bonds, \$735,987 for a Sewer AARA note payable, and \$93,171 of net pension liability. These are backed by the full faith and credit of the City.

City of Trinity's Outstanding Debt

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
Compensated absences	\$ 29,867	\$ 25,912	\$ -	\$ -	\$ 29,867	\$ 25,912
Sewer AAR note payable	-	-	735,987	788,558	735,987	788,558
General obligation bond	-	-	1,628,000	1,656,000	1,628,000	1,656,000
General obligation bond	-	-	3,785,960	3,888,503	3,785,960	3,888,503
General obligation bond	-	-	4,445,681	4,528,429	4,445,681	4,528,429
General obligation bond	-	-	2,881,768	2,928,751	2,881,768	2,928,751
Net pension liability	74,071	12,226	19,100	2,135	93,171	14,361
Total	\$ 103,938	\$ 38,138	\$ 13,496,496	\$ 13,792,376	\$ 13,600,434	\$ 13,830,514

City of Trinity's Outstanding Debt

The City of Trinity's total debt decreased by \$230,080 (1.66%) during the past fiscal year, primarily due to the payment of bonds.

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 that government's boundaries. The legal debt margin for City of Trinity is \$43,525,293.

Additional information regarding the City of Trinity's long-term debt can be found in Note II.B.5 of this report.

Economic Factors and Next Year's Budgets and Rates

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

- The City has completed the Turnpike Industrial Park sewer construction and has added 17 new commercial customers. Project was updated to allow future additions should a pump station be installed in this area. The changes will open up this area for business growth that will increase the tax base as well. Other public utilities already available include water, electric, natural gas, telephone and cable.
- Changes to the Ordinances by Council promoting development and growth has resulted in a positive effect with current development in the new Bellawood Subdivision, infill development throughout the City, and a proposed additional subdivision. Growth has occurred in both residential and commercial.
- The City of Trinity's participation with businesses to obtain grants that will enable industry growth and bring additional jobs to the City.
- Trinity's tax rate is only \$0.10/\$100 valuation, the lowest tax rate in Randolph County.

Management Discussion and Analysis
City of Trinity

Budget Highlights for the Fiscal Year Ending June 30, 2018

Governmental Activities: For the twelfth consecutive year, the property tax rate will remain at \$.10/\$100 property valuation. The greatest source of revenue comes from sales tax which is expected to total \$1,333,000.

For the fourteenth consecutive year, 75% of sales tax revenue, or about \$999,750 will be restricted to pay costs and debt service on sewer projects funded in part by GO bonds.

Requests for Information

This report is designed to provide an overview of the City'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 Debbie Hinson, City Manager/Finance Director, City of Trinity, PO Box 50, 6701 NC Highway 62, Trinity, NC 27370; (336) 431-2841; cityhall-trinity@triad.rr.com; www.trinity-nc.gov.

Basic Financial Statements

City of Trinity, North Carolina
Statement of Net Position
June 30, 2017

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 6,236,762	\$ 1,674,476	\$ 7,911,238
Taxes receivables (net)	13,499	-	13,499
Accounts receivable (net)	-	83,627	83,627
Due from other governments	405,795	8,040	413,835
Internal balances	834,419	(834,419)	-
Restricted cash and cash equivalents	368,202	-	368,202
Total current assets	<u>7,858,677</u>	<u>931,724</u>	<u>8,790,401</u>
Non-current assets:			
Net pension asset	-	-	-
Capital assets:			
Land, non-depreciable improvements, and construction in progress	623,665	588,941	1,212,606
Other capital assets, net of depreciation	1,963,821	25,618,246	27,582,067
Total capital assets	<u>2,587,486</u>	<u>26,207,187</u>	<u>28,794,673</u>
Total assets	<u>10,446,163</u>	<u>27,138,911</u>	<u>37,585,074</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	76,378	20,028	96,406
Total deferred outflows of resources	<u>76,378</u>	<u>20,028</u>	<u>96,406</u>
LIABILITIES			
Current liabilities:			
Accounts payable	45,709	142,844	188,553
Current portion of long-term liabilities	29,867	274,571	304,438
Total current liabilities	<u>75,576</u>	<u>417,415</u>	<u>492,991</u>
Long-term liabilities:			
Net pension liability	74,071	19,100	93,171
Due in more than one year	-	13,202,825	13,202,825
Total liabilities	<u>149,647</u>	<u>13,639,340</u>	<u>13,788,987</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	4,952	1,277	6,229
Total deferred outflows of resources	<u>4,952</u>	<u>1,277</u>	<u>6,229</u>
NET POSITION			
Net investment in capital assets	2,587,486	12,729,791	15,317,277
Restricted for:			
Stabilization by State Statute	1,757,348	-	1,757,348
Streets	368,202	-	368,202
Unrestricted	5,654,906	788,531	6,443,437
Total net position	<u>\$ 10,367,942</u>	<u>\$ 13,518,322</u>	<u>\$ 23,886,264</u>

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

City of Trinity, North Carolina
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
General government	\$ 593,215	\$ -	\$ -	\$ -	\$ (593,215)	\$ -	\$ (593,215)
Public safety	77,779	-	-	-	(77,779)	-	(77,779)
Public works	920,507	462,677	189,324	-	(268,506)	-	(268,506)
Economic development	5,000	3,600	-	-	(1,400)	-	(1,400)
Special appropriations	42,701	-	-	-	(42,701)	-	(42,701)
Total governmental activities	1,639,202	466,277	189,324	-	(983,601)	-	(983,601)
Business-type activities:							
Sewer	2,391,741	709,294	-	94,809	-	(1,587,638)	(1,587,638)
Total business-type activities	2,391,741	709,294	-	94,809	-	(1,587,638)	(1,587,638)
Total government	\$ 4,030,943	\$ 1,175,571	\$ 189,324	\$ 94,809	(983,601)	(1,587,638)	(2,571,239)

General revenues:

Taxes:			
Property taxes, levied for general purpose	557,329	-	557,329
Other taxes	11,222	-	11,222
Unrestricted intergovernmental revenues	1,791,985	-	1,791,985
Unrestricted investment earnings	11,253	8,408	19,661
Miscellaneous	12,955	-	12,955
Total general revenues not including transfers	2,384,744	8,408	2,393,152
Transfers	(1,103,913)	1,103,913	-
Total general revenues and transfers	1,280,831	1,112,321	2,393,152
Change in net position	297,230	(475,317)	(178,087)
Net position, beginning	10,070,712	13,993,639	24,064,351
Net position, ending	\$ 10,367,942	\$ 13,518,322	\$ 23,886,264

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

City of Trinity, North Carolina
Balance Sheet
Governmental Funds
June 30, 2017

	Major Fund		
	General	Total Non-Major Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 6,123,678	\$ 113,084	\$ 6,236,762
Restricted cash and cash equivalents	368,202	-	368,202
Receivables, net:			
Taxes	13,499	-	13,499
Due from other governments	405,795	-	405,795
Due from other funds	1,351,553	-	1,351,553
Total assets	<u>8,262,727</u>	<u>113,084</u>	<u>8,375,811</u>
LIABILITIES			
Accounts payable and accrued liabilities	45,709	-	45,709
Due to other funds	470,145	46,989	517,134
Total liabilities	<u>515,854</u>	<u>46,989</u>	<u>562,843</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	13,499	-	13,499
Total deferred inflows of resources	<u>13,499</u>	<u>-</u>	<u>13,499</u>
FUND BALANCES			
Restricted			
Stabilization by State statute	1,757,348	-	1,757,348
Streets	368,202	-	368,202
Committed			
Parks and Recreation	-	66,095	66,095
Unassigned	5,607,824	-	5,607,824
Total fund balances	<u>7,733,374</u>	<u>66,095</u>	<u>7,799,469</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 8,262,727</u>	<u>\$ 113,084</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Gross capital assets at historical cost	\$ 3,218,865	
Accumulated depreciation	<u>(631,379)</u>	2,587,486
Deferred outflows of resources related to pensions are not reported in the funds		76,378
Earned revenues considered deferred inflows of resources in fund statements.		13,499

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

Compensated absences	(29,867)
Net pension liability	(74,071)
Deferred inflows of resources related to pensions are not reported in the funds	(4,952)
Net position of governmental activities	<u>\$ 10,367,942</u>

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

City of Trinity, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2017

	Major Fund		
	General Fund	Total Non-Major Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 555,394	\$ -	\$ 555,394
Other taxes and licenses	11,222	-	11,222
Unrestricted intergovernmental	1,791,985	-	1,791,985
Restricted intergovernmental	189,324	-	189,324
Sales and services	462,677	-	462,677
Investment earnings	11,058	195	11,253
Miscellaneous	12,955	3,600	16,555
Total revenues	3,034,615	3,795	3,038,410
EXPENDITURES			
Current:			
General government	534,605	1,722	536,327
Public safety	77,779	-	77,779
Public works	895,458	-	895,458
Economic development	5,000	-	5,000
Special appropriations	42,701	-	42,701
Total expenditures	1,555,543	1,722	1,557,265
Excess (deficiency) of revenues over expenditures	1,479,072	2,073	1,481,145
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	-	-
Transfers to other funds	(1,103,913)	-	(1,103,913)
Total other financing sources (uses)	(1,103,913)	-	(1,103,913)
Net change in fund balance	375,159	2,073	377,232
Fund balances, beginning	7,358,215	64,022	7,422,237
Fund balances, ending	\$ 7,733,374	\$ 66,095	\$ 7,799,469

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

City of Trinity, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2017

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

Net changes in fund balances - total governmental funds		\$ 377,232
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 depreciation exceeded capital outlays in the current period.		
Capital outlay expenditures which were capitalized	\$ 13,687	
Depreciation expense for governmental assets	<u>(88,066)</u>	(74,379)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		19,132
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Change in unavailable revenue for tax revenues		1,935
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences		(3,955)
Pension expense		<u>(22,735)</u>
Total changes in net position of governmental activities		<u>\$ 297,230</u>

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

City of Trinity, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2017

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 515,400	\$ 515,400	\$ 555,394	\$ 39,994
Other taxes and licenses	10,000	10,000	11,222	1,222
Unrestricted intergovernmental	1,457,100	1,675,200	1,791,985	116,785
Restricted intergovernmental	174,000	174,000	189,324	15,324
Sales and services	425,200	425,200	462,677	37,477
Investment earnings	9,300	9,320	11,058	1,738
Miscellaneous	1,000	1,000	12,955	11,955
Total revenues	2,592,000	2,810,120	3,034,615	224,495
Expenditures:				
Current:				
General government	669,469	669,469	534,605	134,864
Public safety	78,983	78,983	77,779	1,204
Public works	1,035,833	1,035,833	895,458	140,375
Economic development	10,000	10,000	5,000	5,000
Special appropriations	89,690	89,690	42,701	46,989
Total expenditures	1,883,975	1,883,975	1,555,543	328,432
Revenues over expenditures	708,025	926,145	1,479,072	552,927
Other financing sources (uses):				
Transfers from other funds	-	-	-	-
Transfers to other funds	(910,825)	(1,103,925)	(1,103,913)	12
Total other financing sources (uses)	(910,825)	(1,103,925)	(1,103,913)	12
Fund balance appropriated	202,800	177,780	-	(177,780)
Net change in fund balance	\$ -	\$ -	375,159	\$ 375,159
Fund balances, beginning			7,358,215	
Fund balances, ending			<u>\$ 7,733,374</u>	

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

City of Trinity, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2017

	Major Enterprise Fund	
	Sewer Fund	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,674,476	\$ 1,674,476
Accounts receivable, net	83,627	83,627
Due from other governments	8,040	8,040
Due from other funds	530,303	530,303
Restricted cash and cash equivalents	-	-
Total current assets	2,296,446	2,296,446
Noncurrent assets:		
Net pension asset	-	-
Capital assets:		
Land and other non-depreciable assets	588,941	588,941
Other capital assets, net of depreciation	25,618,246	25,618,246
Total capital assets	26,207,187	26,207,187
Total noncurrent assets	26,207,187	26,207,187
Total assets	28,503,633	28,503,633
DEFERRED OUTFLOWS OF RESOURCES		
Pension deferrals	20,028	20,028
Total deferred outflows of resources	20,028	20,028
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	142,844	142,844
Due to other funds	1,364,722	1,364,722
Sewer AARA note payable - current	52,571	52,571
General obligation bonds payable - current	222,000	222,000
Total current liabilities	1,782,137	1,782,137
Noncurrent liabilities:		
Net pension liability	19,100	19,100
Sewer AARA note payable - noncurrent	683,416	683,416
General obligation bonds payable - noncurrent	12,519,409	12,519,409
Total noncurrent liabilities	13,221,925	13,221,925
Total liabilities	15,004,062	15,004,062
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals	1,277	1,277
Total deferred inflows of resources	1,277	1,277
NET POSITION		
Net investment in capital assets	12,729,791	12,729,791
Unrestricted	788,531	788,531
Total net position	\$ 13,518,322	\$ 13,518,322

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

City of Trinity, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2017

	Major Enterprise Fund	
	Sewer Fund	Total
OPERATING REVENUES		
Charges for services	\$ 648,726	\$ 648,726
Tap fees	60,568	60,568
Miscellaneous	-	-
Total operating revenues	<u>709,294</u>	<u>709,294</u>
OPERATING EXPENSES		
Other operating expenses	1,167,656	1,167,656
Depreciation	751,775	751,775
Total operating expenses	<u>1,919,431</u>	<u>1,919,431</u>
Operating income (loss)	<u>(1,210,137)</u>	<u>(1,210,137)</u>
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	8,408	8,408
Interest and other charges	(472,310)	(472,310)
Total nonoperating revenue (expenses)	<u>(463,902)</u>	<u>(463,902)</u>
Income (loss) before contributions and transfers	<u>(1,674,039)</u>	<u>(1,674,039)</u>
Capital contributions	94,809	94,809
Transfers from other funds	1,103,913	1,103,913
Change in net position	<u>(475,317)</u>	<u>(475,317)</u>
Total net position, beginning	13,993,639	13,993,639
Total net position, ending	<u>\$ 13,518,322</u>	<u>\$ 13,518,322</u>

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

City of Trinity, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2017

	<u>Major Enterprise Fund</u>	
	<u>Sewer</u>	
	<u>Fund</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 704,191	\$ 704,191
Cash paid to suppliers	<u>(1,144,608)</u>	<u>(1,144,608)</u>
Net cash provided (used) by operating activities	<u>(440,417)</u>	<u>(440,417)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Due to (from) other funds	(873,208)	(873,208)
Transfers from other funds	<u>1,103,913</u>	<u>1,103,913</u>
Net cash flows provided (used) by noncapital financing activities	<u>230,705</u>	<u>230,705</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition and construction of capital assets	(650,539)	(650,539)
Principal paid on bond maturities	(260,272)	(260,272)
Principal paid on Sewer AARA note payable	(52,571)	(52,571)
Capital contributions	140,000	140,000
Interest paid on bonds	<u>(472,310)</u>	<u>(472,310)</u>
Net cash provided (used) by capital and related financing activities	<u>(1,295,692)</u>	<u>(1,295,692)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	<u>8,408</u>	<u>8,408</u>
Net increase (decrease) in cash and cash equivalents	(1,496,996)	(1,496,996)
Balance, beginning	<u>3,171,472</u>	<u>3,171,472</u>
Balance, ending	<u>\$ 1,674,476</u>	<u>\$ 1,674,476</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets by accounts payable	<u>\$ 27,936</u>	<u>\$ 27,936</u>

cont.

City of Trinity, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2017

	<u>Major Enterprise Fund</u>	
	<u>Sewer</u>	
	<u>Fund</u>	<u>Total</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities		
Operating income (loss)	<u>\$ (1,210,137)</u>	<u>\$ (1,210,137)</u>
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	751,775	751,775
Changes in assets and liabilities:		
(Increase) in accounts receivable	(5,103)	(5,103)
(Increase) in deferred outflows of resources - pensions	(14,974)	(14,974)
Increase in net pension liability	16,965	16,965
(Decrease) in deferred inflows of resources - pensions	(1,613)	(1,613)
Increase in accounts payable and accrued liabilities	<u>22,670</u>	<u>22,670</u>
Total adjustments	<u>769,720</u>	<u>769,720</u>
Net cash provided (used) by operating activities	<u>\$ (440,417)</u>	<u>\$ (440,417)</u>

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

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

I. Summary of Significant Accounting Policies

The accounting policies of the City of Trinity 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 City of Trinity is a municipal corporation that is governed by an elected mayor and a five-member council.

B. Basis of Presentation

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

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

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

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

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

The City reports the following major governmental funds:

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

The City reports the following non-major governmental fund:

Parks and Recreation Capital Projects Fund. This fund is used to account for funds to be used for the construction of a city park.

The City reports the following major enterprise fund:

Sewer Fund. This fund is used to account for the City's sewer operations. For financial reporting purposes, a sewer capital projects fund has been consolidated with the sewer fund.

C. Measurement Focus and Basis of Accounting

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

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

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

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

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

The City 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 sales tax, collected and held by the State at year-end on behalf of the City are recognized as revenue. Sales taxes are considered a shared revenue for the City of Trinity because the tax is levied by Randolph County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

D. Budgetary Data

The City's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the general fund, parks and recreation fund and the sewer fund. All annual appropriations lapse at the fiscal year-end. Project ordinances are adopted for the sewer capital projects fund. The enterprise fund project is consolidated with its respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. All amendments must be approved by the governing board and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the City 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 City'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 City pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents.

3. Restricted Assets

Powell Bill funds are classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

City of Trinity Restricted Cash

Governmental Activities		
General Fund		
	Streets	\$ 368,202
Total governmental activities		<u>368,202</u>
Business-type Activities		
Water and Sewer Fund		<u>-</u>
Total Business-type Activities		<u>-</u>
Total Restricted Cash		<u>\$ 368,202</u>

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the City levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2016. As allowed by State law, the City has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the City's general fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years.

Minimum capitalization costs are as follows:

Asset Class	Cost
Land	\$ 1
Sewer easements, lines and improvements	1
General buildings and improvements	2,500
Computers and equipment	1,500
Furnishings and vehicles	2,000
Sewer buildings and equipment	5,000
Streets and infrastructure	20,000

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

Asset Class	Estimated Useful Lives
Sewer lines and improvements	40
General buildings and improvements	30
Computers and equipment	4
Furnishings and vehicles	10
Sewer buildings and equipment	40
Streets and infrastructure	40

7. 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 City has one item that meets this criterion, pension deferrals in the 2017 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 City has two items that meet the criterion for this category - property taxes receivable and pension deferrals.

8. Long-Term Obligations

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

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

9. Compensated Absences

The vacation policy of the City provides for the accumulation of up to 240 hours earned vacation leave with such leave being fully vested when earned. For the City's government-wide fund, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The City 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 City's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the City does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

10. Net Position/Fund Balances

Net Position

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

Fund Balances

In the governmental fund financial statements, fund balance is composed of three 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:

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

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

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

Committed for Parks and Recreation – portion of fund balance that has been budgeted by the Board for parks and recreation.

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

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

11. Defined Benefit Cost-Sharing Plans

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

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

II. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the City 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 City's agent in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the City, these deposits are considered to be held by the City's agent in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the City, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the City under the Pooling Method, the potential exists for under-collateralization. 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 City 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 City complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2017, the City's deposits had a carrying amount of \$7,803,302 and a bank balance of \$7,856,911. Of the bank balance, \$868,490 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2017, the City's petty cash fund totaled \$125.

2. Investments

At June 30, 2017, the City of Trinity had \$476,013 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAm by Standard and Poor's. The City has no policy regarding credit risk.

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

3. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2017, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 610,000	\$ -	\$ -	\$ 610,000
Construction in progress	13,665	-	-	13,665
Total capital assets not being depreciated	623,665	-	-	623,665
Capital assets being depreciated:				
Buildings and improvements	770,578	-	-	770,578
Land improvements	4,781	-	-	4,781
Furniture and equipment	289,921	-	-	289,921
Vehicles	67,338	13,687	-	81,025
Infrastructure	1,448,895	-	-	1,448,895
Total capital assets being depreciated	2,581,513	13,687	-	2,595,200
Less accumulated depreciation for:				
Buildings and improvements	147,860	24,690	-	172,550
Land improvements	1,987	120	-	2,107
Furniture and equipment	172,766	20,682	-	193,448
Vehicles	27,932	6,352	-	34,284
Infrastructure	192,768	36,222	-	228,990
Total accumulated depreciation	543,313	88,066	-	631,379
Total capital assets being depreciated, net	2,038,200			1,963,821
Governmental activity capital assets, net	<u>\$ 2,661,865</u>			<u>\$ 2,587,486</u>

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

General government	\$ 51,844
Public Works	36,222
Total depreciation expense	<u>\$ 88,066</u>

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
Sewer Fund				
Capital assets not being depreciated:				
Land	\$ 14,186	\$ -	\$ -	\$ 14,186
Construction in progress	359,559	608,696	393,500	574,755
Total capital assets not being depreciated	373,745	608,696	393,500	588,941
Capital assets being depreciated:				
Sewer system	29,589,271	393,500	-	29,982,771
Buildings	4,367	-	-	4,367
Equipment	23,109	62,936	-	86,045
Vehicles	12,722	6,844	-	19,566
Total capital assets being depreciated	29,629,469	463,280	-	30,092,749
Less accumulated depreciation for:				
Sewer system	3,693,154	740,552	-	4,433,706
Buildings	-	145	-	145
Equipment	23,108	9,178	-	32,286
Vehicles	6,466	1,900	-	8,366
Total accumulated depreciation	3,722,728	751,775	-	4,474,503
Total capital assets being depreciated, net	25,906,741			25,618,246
Sewer Fund capital assets, net	<u>\$ 26,280,486</u>			<u>\$ 26,207,187</u>

Construction Commitments

The government has active construction projects as of June 30, 2017. At year-end, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Turnpike Extension	\$ 497,291	\$ 161,987

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The City of Trinity 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

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. City of Trinity employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The City of Trinity's contractually required contribution rate for the year ended June 30, 2017, was 7.25% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the City of Trinity were \$24,399 for the year ended June 30, 2017.

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

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

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

At June 30, 2017, the City reported a liability of \$93,171 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The City's proportion of the net pension liability was based on a projection of the City'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, 2016, the City's proportion was 0.00439%, which was an increase of 0.00119% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City recognized pension expense of \$28,378. At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 1,751	\$ 3,265
Changes of assumptions	6,381	-
Net difference between projected and actual earnings on pension plan investments	51,511	-
Changes in proportion and differences between City contributions and proportionate share of contributions	12,364	2,964
City contributions subsequent to the measurement date	24,399	-
Total	<u>\$ 96,406</u>	<u>\$ 6,229</u>

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

\$24,399 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2018	\$	11,995
2019		11,975
2020		25,430
2021		16,380
2022		-
Thereafter		-

Actuarial Assumptions. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2015 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

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2015 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 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate. The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.25 percent, as well as what the City'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 (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
City's proportionate share of the net pension liability (asset)	\$ 222,137	\$ 93,171	\$ (13,717)

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

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

2. Deferred Outflows and Inflows of Resources

The City has several deferred outflow of resources. Deferred outflows of resources is comprised of the following:

Source	Amount
Contributions to pension plan in current fiscal year	\$ 24,399
Differences between expected and actual experience	1,751
Changes of assumptions	6,381
Net difference between projected and actual	51,511
Changes in proportion and differences between employer contributions and proportionate share of contributions	12,364
Total	<u>\$ 96,406</u>

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

	Statement of Net Position	General Fund Balance Sheet
Taxes receivable, less penalties (General Fund)	\$ -	\$ 13,499
Differences between expected and actual experience	3,265	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	2,964	-
Total	<u>\$ 6,229</u>	<u>\$ 13,499</u>

3. Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the City obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Excess insurance coverage is purchased by the Board of Trustees to protect against large workers' compensation claims that exceed certain dollar cost levels. Medical stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the City upon request.

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

The City is eligible to and has purchased limited commercial flood insurance for \$5,000,000 of maximum coverage.

In accordance with G.S. 159-29, the City's employees that have access to \$100 or more at any given time of the City's funds are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$125,000.

4. Commitments

The City has entered into an agreement with the City of Thomasville which operates their wastewater system to pay for the cost of a wastewater treatment plant upgrade. The City of Trinity's payment (which is approximately 29.3% of the total debt service cost) began in May 2009 and will be approximately \$500,000 annually for 20 years. Total payments to the City of Thomasville for the year were \$498,168.

The City has entered into an agreement for solid waste collection expiring in December 2021 for approximately \$312,000 per year.

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

5. Long-Term Obligations

a. Sewer AARA Note Payable

In November 2009, the City issued a \$2,403,400 promissory note to the Clean Water Revolving Fund as part of the American Recovery and Reinvestment Act of 2009 (AARA) to help with construction of its sanitary sewer project. As part of the AARA, the unpaid principal (total of \$2,102,823) was immediately reduced at the completion of the project by one-half of the loan amount. The amount of principal forgiveness was \$1,051,412 bringing the unpaid amount of the note to \$1,051,411. Interest accrues at the rate of 0% on the unpaid principal. The principal is being repaid in 20 annual installments of \$52,571 beginning May 1, 2012. \$735,987

	Year Ending June 30	Principal	Interest
	2018	\$ 52,571	\$ -
	2019	52,571	-
	2020	52,571	-
	2021	52,571	-
	2022	52,571	-
	2023-2027	262,855	-
	2028-2031	210,277	-
Total		<u>\$ 735,987</u>	<u>\$ -</u>

b. General Obligation Indebtedness

\$14,877,000 of the City's general obligation bonds have been issued to finance the construction of the sewer system and will be retired by its resources and will be reported as long-term debt in the sewer fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the City. Principal and interest payments will be appropriated when due.

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

General Obligation Bonds outstanding at June 30, 2017

\$1,824,000 2008 USDA Sanitary Sewer Bond issued April 21, 2008, and due in annual installments plus interest at 4.375%.

\$1,628,000

Year Ending June 30	Principal	Interest
2018	\$ 29,000	\$ 71,225
2019	31,000	69,956
2020	32,000	68,600
2021	33,000	67,200
2022	35,000	65,756
2023-2027	198,000	304,544
2028-2032	245,000	257,250
2033-2037	304,000	198,712
2038-2042	376,000	126,219
2043-2047	345,000	38,719
Total	<u>\$ 1,628,000</u>	<u>\$ 1,268,181</u>

\$5,000,000 2010 USDA Sanitary Sewer Bond issued February 22, 2010, and due in annual installments plus interest at 4.00%.

\$3,785,960

Year Ending June 30	Principal	Interest
2018	\$ 74,000	\$ 184,480
2019	77,000	181,520
2020	80,000	178,440
2021	83,000	175,240
2022	87,000	171,920
2023-2027	487,000	804,720
2028-2032	594,000	699,080
2033-2037	722,000	402,271
2038-2042	878,000	-
2043-2046	703,960	-
Total	<u>\$ 3,785,960</u>	<u>\$ 2,797,671</u>

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

\$4,953,000 Sanitary Sewer Bond, Series 2013 issued March 25, 2013, and due in annual installments plus interest at 3.125%.

\$4,445,681

Year Ending June 30	Principal	Interest
2018	\$ 77,000	\$ 148,000
2019	79,000	145,594
2020	82,000	143,125
2021	84,000	140,563
2022	87,000	137,938
2023-2027	476,000	647,219
2028-2032	556,000	568,063
2033-2037	650,000	475,469
2038-2042	757,000	367,438
2043-2047	882,000	160,774
2048-2051	715,681	-
Total	<u>\$ 4,445,681</u>	<u>\$ 2,934,183</u>

\$3,100,000 2014 USDA Sanitary Sewer Bond issued October 20, 2014, and due in annual installments plus interest at 3.50%.

\$2,881,768

Year Ending June 30	Principal	Interest
2018	\$ 42,000	\$ 107,065
2019	43,000	105,595
2020	45,000	104,090
2021	46,000	102,515
2022	48,000	100,905
2023-2027	267,000	478,030
2028-2032	317,000	428,015
2033-2037	377,000	368,480
2038-2042	446,000	297,850
2043-2047	531,000	214,060
2048-2052	631,000	1,134
2053-2054	88,768	-
Total	<u>\$ 2,881,768</u>	<u>\$ 2,307,739</u>

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

c. Changes in Long-Term Liabilities

Compensated absences for governmental activities have typically been liquidated in the general fund.

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Compensated absences	\$ 25,912	\$ 3,955	\$ -	\$ 29,867	\$ 29,867
Net pension liability (LGRS)	12,226	61,845	-	74,071	-
Governmental activity long-term liabilities	<u>\$ 38,138</u>	<u>\$ 65,800</u>	<u>\$ -</u>	<u>\$ 103,938</u>	<u>\$ 29,867</u>
Business-type activities:					
General obligation bond - USDA 2008	\$ 1,656,000	\$ -	\$ 28,000	\$ 1,628,000	\$ 29,000
General obligation bond - USDA 2010	3,888,503	-	102,543	3,785,960	74,000
General obligation bond - Series 2013	4,528,429	-	82,748	4,445,681	77,000
General obligation bond - USDA 2014	2,928,751	-	46,983	2,881,768	42,000
Sewer AARA note payable	788,558	-	52,571	735,987	52,571
Net pension liability (LGRS)	2,135	16,965	-	19,100	-
Business-type activity long-term liabilities	<u>\$ 13,792,376</u>	<u>\$ 16,965</u>	<u>\$ 312,845</u>	<u>\$ 13,496,496</u>	<u>\$ 274,571</u>

At June 30, 2017, the City of Trinity had a legal debt margin of \$43,525,293.

C. Interfund Balances and Activity

Balances due to/from other funds at June 30, 2017, consist of the following:

Due to the general fund for expenditures paid on behalf of the sewer fund	\$ 834,419
Due to the general fund for expenditures paid on behalf of the Parks and Recreation Fund	(46,989)
Due from the Parks and Recreation Fund for expenditures paid by the general fund	46,989
Total	<u>\$ 834,419</u>

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

Transfers to/from other funds at June 30, 2017, consist of the following:

From the General Fund to the Sewer Fund for operating expenditures	\$ 1,103,913
From the Sewer Fund to the Sewer Capital Projects Fund	<u>(545,386)</u>
Total	<u><u>\$ 558,527</u></u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

D. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 2,587,486	\$ 26,207,187
less: long-term debt	-	13,477,396
Net investment in capital asset	<u><u>\$ 2,587,486</u></u>	<u><u>\$ 12,729,791</u></u>

E. Fund Balance

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

Total fund balance - General Fund	\$ 7,733,374
Less:	
Stabilization by State Statute	1,757,348
Streets - Powell Bill	368,202
Working Capital/Fund Balance Policy	-
Remaining Fund Balance	5,607,824

III. Jointly Governed Organization

The City, in conjunction with twelve counties and sixty other municipalities, participates in the Piedmont Triad Regional Council. The participating governments established the Council to coordinate various funding received from federal and State agencies. The City paid membership fees of \$5,394 to the Council during the fiscal year ended June 30, 2017.

City of Trinity, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2017

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The City 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 moneys 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 moneys.

V. Subsequent Events

Subsequent events have been evaluated through October 31, 2017, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

City of Trinity, North Carolina
City of Trinity's Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Four Fiscal Years *

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Trinity's proportion of the net pension liability (asset) (%)	0.00439%	0.00320%	0.00410%	0.00330%
Trinity's proportion of the net pension liability (asset) (\$)	\$ 93,171	\$ 14,361	\$ (24,180)	\$ 39,778
Trinity's covered payroll	\$ 299,753	\$ 226,148	\$ 281,949	\$ 275,839
Trinity's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	31.08%	6.35%	(8.58%)	14.42%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	98.09%	102.64%	94.35%

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

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

City of Trinity, North Carolina
City of Trinity's Contributions
Required Supplementary Information
Last Four Fiscal Years

Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 24,399	\$ 18,909	\$ 15,989	\$ 19,758
Contributions in relation to the contractually required contribution	24,399	18,909	15,989	19,758
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Trinity's covered-employee payroll	\$ 344,967	\$ 299,753	\$ 226,148	\$ 281,949
Contributions as a percentage of covered-employee payroll	7.07%	6.31%	7.07%	7.01%

Individual Fund Schedules

City of Trinity, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 560,240	\$
Discount on taxes		(6,204)	
Penalties and interest		1,358	
Total	515,400	555,394	39,994
Other taxes and licenses:			
Permits and fees		11,222	
Total	10,000	11,222	1,222
Unrestricted intergovernmental:			
Local option sales taxes		1,471,903	
Telecommunications sales tax		26,406	
Utility sales tax		248,228	
Video franchise fee		45,448	
Total	1,675,200	1,791,985	116,785
Restricted intergovernmental:			
Powell Bill allocation		151,155	
Powell Bill assessment revenue		33,724	
Solid waste disposal tax		4,445	
Total	174,000	189,324	15,324
Sales and services:			
Solid waste fees		462,677	
Recycling fees		-	
Total	425,200	462,677	37,477
Investment earnings	9,320	11,058	1,738
Miscellaneous:			
Other		12,955	
Total	1,000	12,955	11,955
Total revenues	2,810,120	3,034,615	224,495
Expenditures:			
General government:			
Governing body:			
Salaries and employee benefits		13,887	
Professional services		9,352	
Travel and training		190	
Dues and subscription		9,638	
Insurance		5,567	
Contributions and donations		1,484	
Elections		-	
Materials and supplies		1,005	
Total	78,825	41,123	37,702

cont.

City of Trinity, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Administration:			
Salaries and employee benefits		228,339	
Professional services		4,207	
Supplies and materials		17,413	
Telephone and postage		12,953	
Information technology		30,463	
Utilities		12,430	
Travel and training		2,555	
Leases		12,168	
Newsletter		4,886	
Dues and subscription		904	
Insurance		13,010	
Miscellaneous expenses		3,767	
Capital outlay		-	
Total	367,590	343,095	24,495
Governmental buildings:			
Supplies		21,408	
Professional services		4,717	
Capital outlay		-	
Total	77,689	26,125	51,564
Finance:			
Professional services		23,851	
Tax collection fees		8,616	
Total	33,600	32,467	1,133
Planning and zoning:			
Salaries and employee benefits		75,105	
Supplies		1,300	
Professional services		1,346	
Travel and training		627	
Leases		5,835	
Advertising		739	
Capital outlay		6,843	
Total	111,765	91,795	19,970
Total general government	669,469	534,605	134,864
Public safety:			
Police and animal control:			
Contract services		67,603	
Total	68,803	67,603	1,200
Fire inspection:			
Contract services		10,176	
Total	10,180	10,176	4
Total public safety	78,983	77,779	1,204

cont.

City of Trinity, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Public works:			
Streets			
Salaries and employee benefits		9,731	
Professional services		22,084	
Supplies and materials		370,834	
Capital outlay		6,844	
Total	508,283	409,493	98,790
Stormwater			
Salaries and employee benefits		69,735	
Supplies and materials		-	
Professional services		5,500	
Travel and training		1,657	
Capital outlay		-	
Total	89,850	76,892	12,958
Sanitation			
Billing fees		25,423	
Tipping fees		66,148	
Contract services		316,141	
Supplies and materials		1,361	
Capital outlay		-	
Total	437,700	409,073	28,627
Total public works	1,035,833	895,458	140,375
Economic development	10,000	5,000	5,000
Special appropriations			
Library contributions		5,000	
Archdale/Trinity YMCA		20,000	
Archdale/Trinity Chamber		5,000	
RC Seniors		12,701	
Miscellaneous		-	
Total special appropriations	89,690	42,701	46,989
Total expenditures	1,883,975	1,555,543	328,432
Revenues over (under) expenditures	926,145	1,479,072	552,927
Other financing sources (uses):			
Transfers from other funds:			
Parks and Recreation fund	-	-	-
Transfers to other funds:			
Parks and Recreation fund	-	-	-
Sewer Capital Projects fund	-	-	-
Sewer fund	(1,103,925)	(1,103,913)	12
Total other financing uses	(1,103,925)	(1,103,913)	12
Fund balance appropriated	177,780	-	(177,780)
Net change in fund balance	\$ -	375,159	\$ 375,159
Fund balances, beginning		7,358,215	
Fund balances, ending		\$ 7,733,374	

City of Trinity, North Carolina
Balance Sheet
Non-Major Governmental Fund
June 30, 2017

	Parks and Recreation Fund	Total Non-Major Governmental Fund
Assets		
Cash and cash equivalents	\$ 113,084	\$ 113,084
Due from other funds	-	-
Total assets	<u>\$ 113,084</u>	<u>\$ 113,084</u>
Liabilities and Fund Balances		
Liabilities:		
Due to other funds	\$ 46,989	\$ 46,989
Total liabilities	<u>46,989</u>	<u>46,989</u>
Fund balances:		
Committed for Parks and Recreation	66,095	66,095
Total liabilities and fund balances	<u>\$ 113,084</u>	<u>\$ 113,084</u>

City of Trinity, North Carolina
Parks and Recreation Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance -
Budget and Actual - Non-Major Governmental Fund
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Open space fees	\$ -	\$ -	\$ -
Rental income	3,600	3,600	-
Investment earnings	100	195	95
Total revenues	<u>3,700</u>	<u>3,795</u>	<u>95</u>
Expenditures:			
Capital outlay	-	-	-
Other operating expenditures	3,700	1,722	1,978
Total expenditures	<u>3,700</u>	<u>1,722</u>	<u>1,978</u>
Revenues over (under) expenditures	<u>-</u>	<u>2,073</u>	<u>2,073</u>
Other financing sources (uses):			
Transfer from other funds:			
General Fund	-	-	-
Total	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance appropriated	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>2,073</u>	<u>\$ 2,073</u>
Fund balance, beginning		64,022	
Fund balance, ending		<u>\$ 66,095</u>	

City of Trinity, North Carolina
Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non - GAAP)
For the Year Ended June 30, 2017

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Charges for services		\$ 648,726	
Tap fees		60,568	
Miscellaneous		-	
Total	<u>\$ 644,350</u>	<u>709,294</u>	<u>\$ 64,944</u>
Nonoperating revenues:			
Interest	2,500	8,408	5,908
Total revenues	<u>646,850</u>	<u>717,702</u>	<u>70,852</u>
Expenditures:			
Other operating expenditures	1,212,972	1,167,278	45,694
Capital Outlay	<u>70,170</u>	<u>69,779</u>	<u>391</u>
	<u>1,283,142</u>	<u>1,237,057</u>	<u>46,085</u>
Debt service:			
Interest and other charges	472,310	472,310	-
Principal retirement	<u>312,843</u>	<u>312,843</u>	<u>-</u>
Total Debt service	<u>785,153</u>	<u>785,153</u>	<u>-</u>
Total Expenditures	<u>2,068,295</u>	<u>2,022,210</u>	<u>46,085</u>
Revenues over (under) expenditures	(1,421,445)	(1,304,508)	116,937
Other financing sources (uses):			
Transfers to other funds:			
Sewer capital projects fund	(1,250,000)	(545,386)	704,614
Transfers from other funds:			
General Fund	<u>1,103,925</u>	<u>1,103,913</u>	<u>(12)</u>
Total other financing sources (uses)	<u>(146,075)</u>	<u>558,527</u>	<u>704,602</u>
Fund balance appropriated	1,567,520	-	(1,567,520)
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	<u>(745,981)</u>	<u>\$ (745,981)</u>

Reconciliation from budgetary basis
(modified accrual) to full accrual:

Reconciling items:	
Capital outlay	69,779
Increase in deferred outflows of resources - pensions	14,974
Increase in net pension liability	(16,965)
Decrease in deferred inflows of resources- pensions	1,613
Principal retirement	312,843
Depreciation	(751,775)
Contributions	94,809
Transfer to Turnpike Extension project	545,386
Capitalized interest on borrowings during construction:	
Interest costs	-
Investment earnings on borrowed funds	-
Total reconciling items	<u>270,664</u>
Change in net position	<u>\$ (475,317)</u>

City of Trinity, North Carolina
Sewer Capital Projects Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)
From Inception and for the Year Ended June 30, 2017

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues - Sewer Project:					
Restricted intergovernmental:					
Federal Grant - CDBG-ED Grant	\$ 168,000	\$ 168,000	\$ -	\$ 168,000	\$ -
Golden Leaf Grant	140,000	45,191	94,809	140,000	-
Total restricted intergovernmental revenues	308,000	213,191	94,809	308,000	-
Expenditures:					
Ennis Flint					
Construction	309,713	225,321	63,309	288,630	21,083
Technical services	66,500	66,500	-	66,500	-
Legal and right-of-way	8,000	5,640	-	5,640	2,360
Permits and fees	1,000	130	-	130	870
Property and easements	9,800	9,800	-	9,800	-
Professional services	22,800	22,800	-	22,800	-
Construction contingency	7,187	-	-	-	7,187
Total	425,000	330,191	63,309	393,500	31,500
Turnpike Extension					
Construction	910,000	-	418,784	418,784	491,216
Technical services	145,000	-	126,602	126,602	18,398
Legal and right-of-way	5,000	-	-	-	5,000
Permits and fees	3,000	-	-	-	3,000
Property and easements	-	-	-	-	-
Professional services	100,000	-	-	-	100,000
Construction contingency	87,000	-	-	-	87,000
Total	1,250,000	-	545,386	545,386	704,614
Total expenditures	1,675,000	330,191	608,695	938,886	736,114
Excess of revenues over (under) expenditures	(1,367,000)	(117,000)	(513,886)	(630,886)	736,114
Other financing sources :					
Contributions	96,000	96,000	(31,500)	64,500	(31,500)
Transfers from other funds:					
From Sewer Fund	1,250,000	-	545,386	545,386	(704,614)
From General Fund	21,000	21,000	-	21,000	-
Total other sources	1,367,000	117,000	513,886	630,886	(736,114)
Revenues and other sources over (under) expenditures	\$ -	\$ -	\$ -	\$ -	\$ -

Other Schedules

City of Trinity, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2017

Fiscal Year	Uncollected Balance June 30, 2016	Additions	Collections And Credits	Uncollected Balance June 30, 2017
2016-2017	\$ -	\$ 491,308	\$ 486,986	\$ 4,322
2015-2016	3,481		1,484	1,997
2014-2015	1,145		132	1,013
2013-2014	1,653		250	1,403
2012-2013	1,345		27	1,318
2011-2012	997		15	982
2010-2011	109		15	94
2009-2010	73		-	73
2008-2009	299	-	-	299
2007-2008	79	-	-	79
2006-2007	90	-	90	-
	<u>9,271</u>	<u>491,308</u>	<u>488,999</u>	<u>11,580</u>

Plus: uncollected ad valorem taxes receivable
annually registered vehicles:

2016-2017	-	61,958	61,931	27
Prior years	<u>2,293</u>	<u>-</u>	<u>401</u>	<u>1,892</u>
	<u>2,293</u>	<u>61,958</u>	<u>62,332</u>	<u>1,919</u>

Ad valorem taxes receivable, net	\$ <u>11,564</u>	\$ <u>553,266</u>	\$ <u>551,331</u>	\$ <u>13,499</u>
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Reconciliation to revenues:

Ad valorem taxes - General Fund	\$ 555,394
Reconciling items:	
Penalties and interest collected	(1,358)
Discounts allowed	6,204
Taxes written off	90
Adjustments	<u>(8,999)</u>
Subtotal	<u>(4,063)</u>
Total collections and credits	\$ <u>551,331</u>

City of Trinity, North Carolina
Analysis of Current Tax Levy
City - Wide Levy
June 30, 2017

	City - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 559,557,000	.10	\$ 559,557	\$ 497,599	\$ 61,958
Discoveries - current and prior years	488,000	.10	488	488	-
Releases	(6,779,000)		(6,779)	(6,779)	-
Total property valuation	<u>\$ 553,266,000</u>				
Net levy			553,266	491,308	61,958
Unpaid (by taxpayer) taxes at June 30, 2017			<u>(4,349)</u>	<u>(4,322)</u>	<u>(27)</u>
Current year's taxes collected			<u>\$ 548,917</u>	<u>\$ 486,986</u>	<u>\$ 61,931</u>
Current levy collection percentage			<u>99.21%</u>	<u>99.12%</u>	<u>99.96%</u>

COMPLIANCE SECTION



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

Independent Auditor's Report

To the Honorable Mayor
and Members of the City Council
City of Trinity, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Trinity, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprises the City of Trinity's basic financial statements, and have issued our report thereon dated October 31, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Trinity'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 City of Trinity's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

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 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. We consider the deficiency described in the accompanying schedule of findings and responses as item 2017-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Trinity'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*.

City of Trinity's Response to Findings

The City of Trinity's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

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

A handwritten signature in black ink that reads "Gibson + Company, P.A." The signature is written in a cursive, flowing style.

Winston-Salem, North Carolina
October 31, 2017

**CITY OF TRINITY, NORTH CAROLINA
SCHEDULE OF FINDINGS AND RESPONSES
For the Fiscal Year Ended June 30, 2017**

Financial Statement Findings

2017-1 Segregation of Duties

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among City personnel.

Effect: Transactions could be mishandled.

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

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2016-1.

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of separation. The governing board should provide some of these controls.

Views of responsible officials and planned corrective actions: The City agrees with this finding, but cost-benefit analysis indicates that hiring more personnel to mitigate this issue is not feasible.

Name of contact person: Debbie Hinson, City Manager

Corrective Action: The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The mayor as a member of the governing board will continue to be involved in providing some of these controls.

Proposed Completion Date: The Board has implemented the above procedures.