

**TOWN OF BAKERSVILLE
NORTH CAROLINA**

Financial Statements

June 30, 2019

(with Independent Auditor's Report thereon)

Town Council

**Mayor- Charles Vines
Charles Nash
Jordon Baker**

**YOUNG, MILLER & GILLESPIE, P.A.
Certified Public Accountants
PO Box 723, 215 Oak Avenue
Spruce Pine, North Carolina 28777**

TOWN OF BAKERSVILLE, NORTH CAROLINA
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Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Bakersville, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Bakersville, North Carolina as of June 30, 2019, 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 8 through 17, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on page 52 and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 53 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Bakersville, 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 relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of other auditors, 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 August 29, 2019 on our consideration of the Town of Bakersville's 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 the Town of Bakersville's internal control over financial reporting and compliance.

Young, Miller & Gillespie, P.A.

Spruce Pine, North Carolina
August 29, 2019

TOWN OF BAKERSVILLE, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2019

As management of the Town of Bakersville, we offer readers of the Town of Bakersville's financial statements this narrative overview and analysis of the financial activities of the Town of Bakersville for the fiscal year ended June 30, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

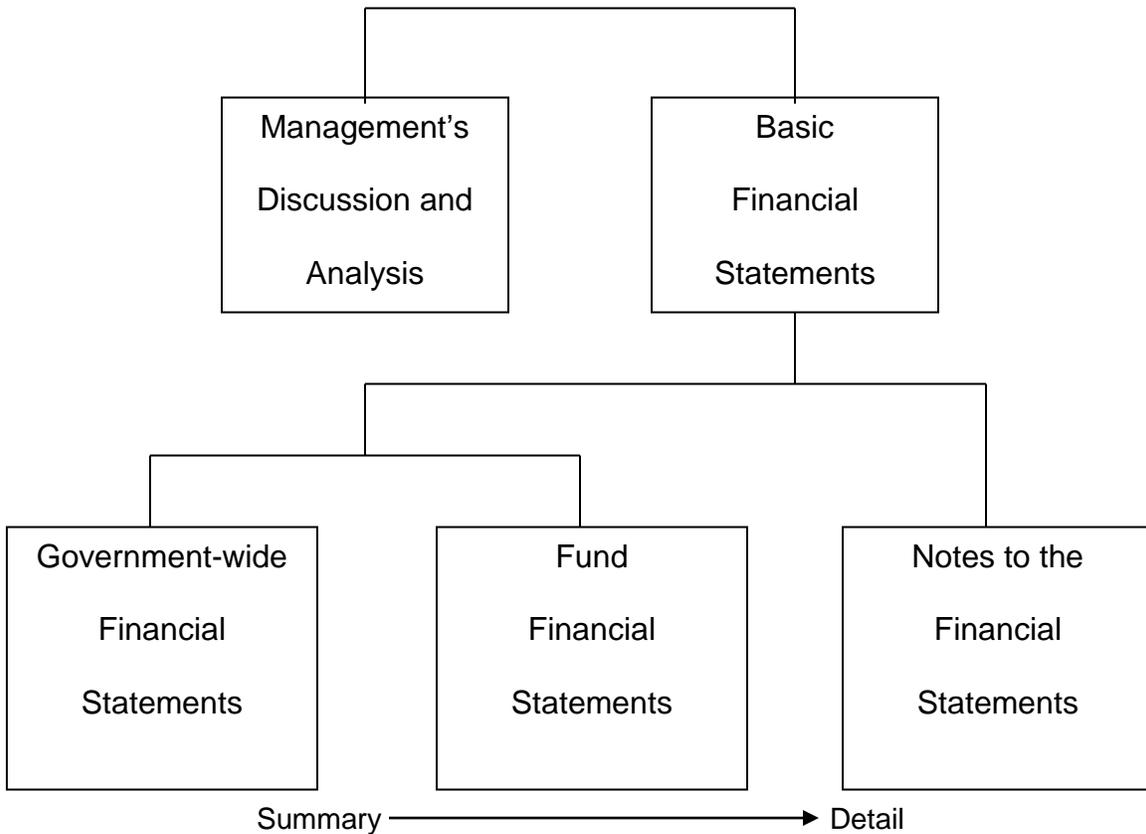
- The assets of the Town of Bakersville exceeded its liabilities at the close of the fiscal year by \$6,488,127.
- The government's total net position increased by \$390,385.
- As of the close of the current fiscal year, The Town of Bakersville's governmental funds reported combined ending fund balances of \$727,077 an increase of \$41,846 in comparison with the prior year. Approximately 87 percent of this total amount, or \$631,136 is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$631,136 or 87 percent of total general fund expenditures for the fiscal year.
- The Town of Bakersville's total debt generated by installment obligations increased by \$14,175 during the current fiscal year.

Overview of the Basic Financial Statements

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

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**. These statements provide short and long-term information about the Town's financial status.

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

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

Management's Discussion and Analysis (continued)

Government-wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic service such as public safety, public works, and sanitation, and general information. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. This includes the water and sewer services offered by the Town of Bakersville.

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

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Bakersville, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Bakersville can be divided into two categories: governmental funds and proprietary funds.

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

The Town of Bakersville adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the

Management's Discussion and Analysis (continued)

Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The Town of Bakersville has one proprietary fund – the water and sewer fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Bakersville uses enterprise funds to account for its water and sewer activity. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 28-51 of this report.

Other Information

Combining and individual fund statements and schedules are also included in this report.

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Bakersville's progress in funding its obligation to provide pension benefits to its employees.

Interdependence with Other Entities

The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Management's Discussion and Analysis (continued)

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 751,080	\$ 708,724	\$ 102,354	\$ 66,100	\$ 853,434	\$ 774,824
Noncurrent and capital assets	1,814,698	1,681,048	4,160,509	3,972,331	5,975,207	5,653,379
Total assets	2,565,778	2,389,772	4,262,863	4,038,431	6,828,641	6,428,203
Deferred Outflows of Resources	36,244	23,219	4,348	3,272	40,592	26,491
Long-term liabilities outstanding	107,478	103,501	218,163	224,969	325,641	328,470
Other liabilities	28,591	9,457	18,278	15,325	46,869	24,782
Total liabilities	136,069	112,958	236,441	240,294	372,510	353,252
Deferred Inflows of Resources	8,334	3,365	262	356	8,596	3,721
Net position:						
Net investment in capital assets	1,748,698	1,629,603	3,940,009	3,744,331	5,688,707	5,373,934
Restricted	95,941	84,930	-	-	95,941	84,930
Unrestricted	612,980	582,135	90,499	56,722	703,479	638,857
Total net position	\$ 2,457,619	\$ 2,296,668	\$ 4,030,508	\$ 3,801,053	\$ 6,488,127	\$ 6,097,721

As noted earlier, net position may serve over time as one useful indication of an agency's financial condition. The assets of The Town of Bakersville exceeded liabilities by \$6,488,127 as of June 30, 2019. The Town's net position increased by \$390,406 for the fiscal year ended June 30, 2019. The largest portion of net position (88%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town of Bakersville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Bakersville's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. A portion of the balance, \$95,941 is restricted as to use and the remaining balance of \$703,497 is unrestricted. Decisions regarding the allocation are made by the administrators of the pension plan, not by the Town of Bakersville's management.

A particular aspect of the Town's financial operations that positively influenced the total unrestricted governmental net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage rate of 97.43%.

Management's Discussion and Analysis (continued)

Town of Bakersville's Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Total	Total
	2019	2018	2019	2018	2019	2018
Revenues:						
Program Revenues:						
Charges for services	\$ 9,021	\$ 7,773	\$ 149,346	\$ 145,874	\$ 158,367	\$ 153,647
Operating grants and contributions	196,748	191,264	-	-	196,748	191,264
Capital grants and contributions	269,935	30,000	281,634	141,154	551,569	171,154
General Revenues:						
Property taxes	127,641	129,063	-	-	127,641	129,063
Other Taxes	97,815	99,670	-	-	97,815	99,670
Grants and contributions not restricted to specific programs	13,555	11,513	-	-	13,555	11,513
Other	14,578	10,514	13	11	14,591	10,525
Total revenues	729,293	479,797	430,993	287,039	1,160,286	766,836
Expenses:						
General government	110,507	106,993	-	-	110,507	106,993
Public safety	377,491	381,635	-	-	377,491	381,635
Public works	79,055	71,976	-	-	79,055	71,976
Interest on long-term debt	1,109	1,965	-	-	1,109	1,965
Water and sewer	-	-	201,539	199,022	201,539	199,022
Total expenses	568,162	562,569	201,539	199,022	769,701	761,591
Increase (decrease) in net position	161,131	(82,772)	229,454	88,017	390,585	5,245
Net Position:						
Net position, July 1	2,296,688	2,387,737	3,801,053	3,713,036	6,097,741	6,100,773
Restatement	-	(8,297)	-	-	-	(8,297)
Net position, July 1, as restated	2,296,688	2,379,440	3,801,053	3,713,036	6,097,741	6,092,476
Net position, June 30	<u>\$ 2,457,819</u>	<u>\$ 2,296,668</u>	<u>\$ 4,030,507</u>	<u>\$ 3,801,053</u>	<u>\$ 6,488,326</u>	<u>\$ 6,097,721</u>

Governmental activities. Governmental activities increased the Town's net position by \$161,131. Key elements of this decrease are as follows:

- One time grant for purchase of public safety equipment

Business-Type Activities: Business-type activities increased the Town of Bakersville's net position by \$229,454. Key elements of this increase are as follows:

Management's Discussion and Analysis (continued)

- The Town received a water project capital grant in the amount of \$281,634.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of The Town of Bakersville. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$631,136 while total fund balance reached \$727,077. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 87 percent of total General Fund expenditures and transfers (compared to 132% in 2018) while total fund balance represents 101 percent of that same amount (compared to 151% in 2018).

At June 30, 2019 the governmental funds of The Town of Bakersville reported a combined fund balance of \$727,077, an increase of \$41,846 over last year.

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

Proprietary Funds. The Town of Bakersville's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$90,499. The total change in net position was an increase of \$229,454. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town of Bakersville's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Bakersville's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$5,975,207 (net of accumulated depreciation). These assets include buildings, road and bridges, land, machinery and equipment, vehicles, water and sewer systems.

Management's Discussion and Analysis (continued)

Major capital asset transactions during the year include the following:

- Paving with Powell Bill funding
- Construction on water project
- Purchase of new fire truck

**Town of Bakersville's Capital Assets
(Net of Depreciation)**

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land and non depreciable	\$ 480,856	\$ 480,856	\$ 546,328	\$ 264,695	\$ 1,027,184	\$ 745,551
Buildings	478,146	456,715	-	-	478,146	456,715
Equipment	546,572	680,377	-	-	546,572	680,377
Vehicles	271,309	21,381	-	-	271,309	21,381
Infrastructure	37,815	41,719	-	295	37,815	42,014
Water and sewer system	-	-	3,614,181	3,707,341	3,614,181	3,707,341
Total	\$ 1,814,698	\$ 1,681,048	\$ 4,160,509	\$ 3,972,331	\$ 5,975,207	\$ 5,653,379

Additional information on the Town's capital assets can be found in note 4 of the Basic Financial Statements.

Long-Term Debt. As of June 30, 2019, the Town of Bakersville had total bonded debt outstanding of \$256,987 backed by the full faith and credit of the Town.

Of this, \$220,500 was for water and sewer bonds. The total water and sewer debt payments, including interest for the year, were \$18,330.

Management's Discussion and Analysis (continued)

Figure 5

	Governmental		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Installment contracts	\$ 66,000	\$ 51,445	\$ -	\$ -	\$ 66,000	\$ 51,445
General obligation bonds	-	-	220,500	228,000	220,500	228,000
Total	\$ 66,000	\$ 51,445	\$ 220,500	\$ 228,000	\$ 286,500	\$ 279,445

The Town of Bakersville's total installment obligations debt decreased by \$14,555 during the past fiscal year, primarily due to the net effect of outflow of principal payments toward debt reduction.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Bakersville's long-term debt is \$ 2,165,525.

Additional information regarding the Town of Bakersville's long-term debt can be found in the notes to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

The Town is located in an economically-challenged rural area. 74.23% of households within the Town of Bakersville are Low-Moderate Income Households. In regard to our local economic data, Mitchell County, including the Town of Bakersville, has been designated as a Tier 1 County for FY 2019 as determined by the Appalachian Regional Commission. The system compares each county's averages for three economic indicators—three-year average unemployment rate, per capita market income, and poverty rate—with national averages.

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

Management's Discussion and Analysis (continued)

- Continued aggressive collection measures by staff will keep revenues stable.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities: The property tax rate for the Town of Bakersville will remain at \$0.41 per \$100.

The Town continues to make efforts to increase the undesignated fund balance, by cutting costs and monitoring spending. FY 2019-2020 will see an increase in revenue due to a grant received for public safety. Other than the grant income, budgeted revenues and expenditures in the General Fund are expected to remain consistent with prior years.

The main revenue sources for the General Fund are: 1) Property and Vehicle Taxes (55%), 2) Sales and Use Taxes (20%), and 3) Utilities Franchise Taxes (15%). These three revenue sources represent 90% of total General Fund Revenues.

Business-Type Activities: The Mayor and Town Council continue to be committed to reducing bad debt accounts in upcoming years. The 2019-2020 fiscal year will see an increase in revenue due to a sizeable CDBG Grant received for water system improvements.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Mayor or the Director of Finance, Town of Bakersville, P.O. Box 53, Bakersville, NC 28705. You can also call (828)-688-2113 for more information.

TOWN OF BAKERSVILLE, NORTH CAROLINA
STATEMENT OF NET POSITION
JUNE 30, 2019

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 636,450	\$ 65,775	\$ 702,225
Taxes receivable (net)	18,689	-	18,689
Accounts receivable (net)	19,310	36,579	55,889
Restricted cash and equivalents	76,631	-	76,631
Total current assets	<u>751,080</u>	<u>102,354</u>	<u>853,434</u>
Non-current Assets:			
Capital Assets:			
Land and construction in progress	480,856	546,329	1,027,185
Other capital assets, net of depreciation	1,333,842	3,614,180	4,948,022
Total non-current assets:	<u>1,814,698</u>	<u>4,160,509</u>	<u>5,975,207</u>
Total assets	<u>2,565,778</u>	<u>4,262,863</u>	<u>6,828,641</u>
Deferred Outflows of Resources			
Contributions to pension plan	<u>36,244</u>	<u>4,348</u>	<u>40,592</u>
Liabilities:			
Current Liabilities:			
Accounts payable	4,711	10,278	14,989
Due within one year			
Bonds, capital leases and contracts	21,513	8,000	29,513
Compensated absences	2,367	-	2,367
Total current liabilities	<u>28,591</u>	<u>18,278</u>	<u>46,869</u>
Long-Term Liabilities:			
Due in more than one year			
Net pension liability	45,817	5,663	51,480
Total pension liability	17,174	-	17,174
Bonds, capital leases and contracts	44,487	212,500	256,987
Total long-term liabilities	<u>107,478</u>	<u>218,163</u>	<u>325,641</u>
Total Liabilities	<u>136,069</u>	<u>236,441</u>	<u>372,510</u>
Deferred Inflows of Resources			
	<u>8,334</u>	<u>262</u>	<u>8,596</u>
Net Position:			
Net investment in capital assets	1,748,698	3,940,009	5,688,707
Restricted for:			
Reserve for state statute	19,310	-	19,310
Powell Bill	6,610	-	6,610
McBee	65,266	-	65,266
Public safety	4,755	-	4,755
Unrestricted	612,980	90,499	703,479
Total net position	<u>\$ 2,457,619</u>	<u>\$ 4,030,508</u>	<u>\$ 6,488,127</u>

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

TOWN OF BAKERSVILLE, NORTH CAROLINA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government:							
Governmental Activities:							
General Government	\$ 110,507	\$ -	\$ 9,500	\$ -	\$ (101,007)	\$ -	\$ (101,007)
Public Safety	377,491	748	172,585	269,935	65,777	-	65,777
Public Works	79,055	8,273	14,663	-	(56,119)	-	(56,119)
Interest on long-term debt	1,109	-	-	-	(1,109)	-	(1,109)
Total governmental activities	<u>568,162</u>	<u>9,021</u>	<u>196,748</u>	<u>269,935</u>	<u>(92,458)</u>	<u>-</u>	<u>(92,458)</u>
Business-Type Activities							
Water and sewer	201,539	149,346	-	281,634	-	229,441	229,441
Total business-type activities	<u>201,539</u>	<u>149,346</u>	<u>-</u>	<u>281,634</u>	<u>-</u>	<u>229,441</u>	<u>229,441</u>
Total primary government	<u>\$ 769,701</u>	<u>\$ 158,367</u>	<u>\$ 196,748</u>	<u>\$ 551,569</u>	<u>(92,458)</u>	<u>229,441</u>	<u>136,983</u>
General Revenues:							
Taxes:							
Property taxes, levied for general purposes					127,641	-	127,641
Other taxes					97,815	-	97,815
Grants and contributions not restricted to specific programs					13,355	-	13,355
Unrestricted investment earnings					11,176	13	11,189
Miscellaneous revenues					3,402	-	3,402
Total general revenues and transfers					<u>253,389</u>	<u>13</u>	<u>253,402</u>
Change in net position					160,931	229,454	390,385
Net Position:							
Beginning of year, July 1					2,296,688	3,801,053	6,097,741
End of year, June 30					<u>\$ 2,457,619</u>	<u>\$ 4,030,507</u>	<u>\$ 6,488,126</u>

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

**TOWN OF BAKERSVILLE, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2019**

	General	Total Governmental Funds
Assets:		
Cash and cash equivalents	\$ 636,450	\$ 636,450
Restricted cash	76,631	76,631
Receivables, net		
Taxes	14,174	14,174
Accounts receivable	636	636
Due from other governments	18,674	18,674
Total assets	<u>\$ 746,565</u>	<u>\$ 746,565</u>
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	<u>\$ 4,711</u>	<u>\$ 4,711</u>
Total liabilities	<u>4,711</u>	<u>4,711</u>
Deferred Inflows of Resources:		
Prepaid taxes	603	603
Taxes receivable	14,174	14,174
Total deferred inflows of resources	<u>14,777</u>	<u>14,777</u>
Fund balances:		
Restricted:		
State Statute	\$ 19,310	\$ 19,310
Streets - Powell Bill	6,610	6,610
Beautification - McBee	65,266	65,266
Public Safety - donor restricted	4,755	4,755
Unassigned:	631,136	631,136
Total fund balances	<u>727,077</u>	<u>727,077</u>
Total liabilities and fund balances	<u>\$ 746,565</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,814,698
Other long term assets, including interest receivable on taxes, are not available to pay for current period expenditures and therefore are deferred in the funds.	18,689
Net pension asset and deferrals are not reported in the funds	(34,478)
Long-term liabilities and compensated absences are not due and payable in the current period and are also not reported in the funds.	(68,367)
Net position of governmental activities	<u>\$ 2,457,619</u>

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

**TOWN OF BAKERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	General Fund	Total Governmental Funds
Revenues:		
Ad valorem taxes	\$ 127,504	\$ 127,504
Unrestricted intergovernmental	97,815	97,815
Restricted intergovernmental	446,078	446,078
Permits and fees	9,021	9,021
Investment earnings	11,133	11,133
Miscellaneous	37,362	37,362
Total revenues	<u>728,913</u>	<u>728,913</u>
Expenditures:		
Current:		
General government	130,680	130,680
Public safety	498,443	498,443
Public works	71,010	71,010
Debt Service:		
Principal	23,847	23,847
Interest and other charges	1,109	1,109
Total expenditures	<u>725,089</u>	<u>725,089</u>
Revenues over (under) expenditures	<u>3,824</u>	<u>3,824</u>
Other Financing Sources (Uses):		
Proceeds from long-term debt, net	38,022	38,022
Total other financing sources (uses)	<u>38,022</u>	<u>38,022</u>
Net change in fund balance	41,846	41,846
Fund Balances:		
Beginning of year, July 1	685,231	685,231
End of year, June 30	<u>\$ 727,077</u>	<u>\$ 727,077</u>

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

**TOWN OF BAKERSVILLE, NORTH CAROLINA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUNDS BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2019**

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

Net changes in fund balances - total governmental funds	\$ 41,846
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	329,792
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 property taxes	137
Interest receivable on uncollected tax revenues	43
Proceeds from lease agreement	(38,022)
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(196,142)
Current year contributions to pension plan	10,602
Expenses related to compensated absences and law enforcement officers separation allowance that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(11,172)
Advance refunding of bonds and principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not reported.	23,847
Total changes in net assets of governmental activities.	<u>\$ 160,931</u>

**TOWN OF BAKERSVILLE, NORTH CAROLINA
GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2019**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 124,500	\$ 124,500	\$ 127,504	\$ (3,004)
Unrestricted intergovernmental	94,500	94,500	97,815	(3,315)
Restricted intergovernmental	415,290	440,290	446,078	(5,788)
Permits and fees	7,200	7,200	9,021	(1,821)
Investment earnings	2,500	2,500	11,133	(8,633)
Miscellaneous	35,443	39,440	37,362	2,078
Total revenues	<u>679,433</u>	<u>708,430</u>	<u>728,913</u>	<u>(20,483)</u>
Expenditures:				
Current:				
General government	123,804	155,495	130,680	24,815
Public safety	492,037	519,216	498,443	20,773
Public works	76,588	78,715	71,010	7,705
Debt Service:				
Principal	23,847	23,847	23,847	-
Interest and other charges	1,157	1,157	1,109	48
Total expenditures	<u>717,433</u>	<u>778,430</u>	<u>725,089</u>	<u>53,341</u>
Revenues over (under) expenditures	(38,000)	(70,000)	3,824	(73,824)
Other Financing Sources (Uses):				
Proceeds from long term debt	38,000	38,000	38,022	(22)
Appropriations	-	32,000	-	32,000
Total other financing sources (uses)	<u>38,000</u>	<u>70,000</u>	<u>38,022</u>	<u>31,978</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	41,846	<u>\$ (41,846)</u>
Fund Balance:				
Beginning of year, July 1			685,231	
End of year, June 30			<u>\$ 727,077</u>	

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

**TOWN OF BAKERSVILLE, NORTH CAROLINA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2019**

	<u>2019</u>
Assets:	
Current Assets:	
Cash and cash equivalents	\$ 65,775
Accounts receivable (net)	36,579
Total current assets	<u>102,354</u>
Noncurrent Assets:	
Land and other non-depreciable assets	546,329
Other capital assets, net of depreciation	3,614,180
Total noncurrent assets	<u>4,160,509</u>
Total assets	<u>\$ 4,262,863</u>
Deferred Outflows of Resources	
Contributions to pension plan	<u>\$ 4,348</u>
Liabilities:	
Current Liabilities:	
Accounts payable	\$ 10,278
Bonds, notes and loans payable	8,000
Total current liabilities	<u>18,278</u>
Noncurrent Liabilities:	
Net pension liability	5,663
Bonds, notes and loans payable	212,500
Total noncurrent liabilities	<u>218,163</u>
Total liabilities	<u>236,441</u>
Deferred Inflows of Resources	
Pension deferrals	<u>262</u>
Net Position:	
Net investment in capital assets	3,940,009
Unrestricted	90,499
Total net position	<u>\$ 4,030,508</u>

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

**TOWN OF BAKERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2019**

	2019
Operating Revenues:	
Charges for services	\$ 145,626
Other operating revenues	3,720
Total operating revenues	<u>149,346</u>
Operating Expenses:	
Water treatment and distribution	62,247
Wastewater collection and treatment	35,005
Depreciation	93,456
Total operating expenses	<u>190,708</u>
Operating income (loss)	<u>(41,362)</u>
Nonoperating Revenues (Expenses):	
Interest and investment revenue	13
Interest expense	(10,830)
Total nonoperating revenues (expenses)	<u>(10,817)</u>
Total nonoperating revenues (expenses) before transfers	<u>(52,179)</u>
Capital contributions	<u>281,634</u>
Change in net position	<u>229,455</u>
Net Position:	
Beginning of year, July 1	<u>3,801,053</u>
End of year, June 30	<u>\$ 4,030,508</u>

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

**TOWN OF BAKERSVILLE, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	2019
Cash Flows From Operating Activities:	
Cash received from customers	\$ 143,071
Cash paid for goods and services	(81,409)
Cash paid to or on behalf of employees for services	(15,805)
Other operating revenues	3,720
Net cash provided (used) by operating activities	<u>49,577</u>
Cash Flows From Capital and Related Financing Activities:	
(Acquisition) disposal and construction of capital assets	(281,634)
Principal paid on bond maturities and equipment contracts	(7,500)
Interest paid on bond maturities and equipment contracts	(10,830)
Capital contributions-Federal and State grant	281,634
Net cash provided (used) by capital and related financing activities	<u>(18,330)</u>
Cash Flows From Investing Activities:	
Interest and dividends	13
Net cash provided (used) by investing activities	<u>13</u>
Net increase in cash and cash equivalents	31,260
Cash and cash equivalents, July 1	34,515
Cash and cash equivalents, June 30	<u>\$ 65,775</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (41,362)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	93,456
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(4,994)
Increase (decrease) in pension related deferrals	24
Increase (decrease) in customer deposits	2,453
Total adjustments	<u>90,939</u>
Net cash provided by operating activities	<u>\$ 49,577</u>

Supplemental information: Interest paid during the year was \$11,495

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity:

The Town of Bakersville is a municipal corporation, which is governed by an elected mayor and three-member council. The Town does not have component units that must be discretely presented.

Basis of Presentation - Fund Accounting:

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

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental and proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds, but the Town has no other funds at this time.

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

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2019

from nonexchange transactions or ancillary activities.

The Town reports the following major governmental funds:

General Fund - The General fund is the general operating fund of the Town. 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 revenue expenditures are for public safety, street maintenance and construction, and administrative services.

The Town reports the following major enterprise fund:

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

Measurement Focus and Basis of Accounting

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

Government-Wide and Proprietary Fund Financial Statements - The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish between operating revenues/expenses and 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 revenue of the Water fund is charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2019

reported as nonoperating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual.

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

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Bakersville because the tax is levied by Mitchell County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Fund. All annual appropriations

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2019

lapse at the fiscal year-end. Project ordinances are adopted for the Enterprise Fund and Capital Project Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. The Finance Officer is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to \$1,000; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$1,000 must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

Assets, Liabilities, Deferred Inflows and Outflows of Resources, and Fund Equity

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to the 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 nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

The Town's investments with a maturity of more than one year at acquisition and non-money market investments are carried at fair value as determined by quoted market prices. The securities of the NCCMT Government Portfolio, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value. Money market investments that have a remaining maturity at the time of purchase of one year or less and non-participating interest earnings and investment contract are reported at amortized cost.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The Town considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash and cash equivalents.

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2019

<u>Town of Bakersville Restricted Cash</u>		
Governmental Activities:	Public Safety	4,755
	Beautification	65,266
	Streets – Powell Bill	6,610
Total restricted cash		\$ 76,631

3. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2018.

4. 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.

5. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are \$5,000 for all capital assets. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, have not been recorded under the allowable exemption for Phase III governments in GASB Statement No. 34. 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:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	50
Buildings	50
Improvements	15 - 20
Equipment and Furniture	5 - 7
Vehicles	3 - 5
Computer Equipment	3

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2019

6. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2019 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criteria for this category - prepaid taxes and deferrals of pension expense that result from the implementation of GASB Statement 68 and GASB Statement 73.

7. 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, as well as issuance costs, 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 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.

8. Compensated Absences

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

The Town's sick leave policy provides for an unlimited accumulation of earned sick leave. Sick

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2019

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. No accrual for sick leave has been made because the Town has no obligation for accumulated sick leave until it is actually taken.

9. Net Position / Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

Restricted Fund Balance – this classification includes amounts that are restricted to specific purposes externally imposed by creditors or imposed by law.

- 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.
- Restricted by Donor – portion of fund balance restricted for beautification, as well as another portion that is restricted for fire department expenditures.

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2019

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote of the governing body. Any changes or removal of specific purpose requires majority action by the governing body.

Assigned Fund Balance – portion of fund balance of the Town intended to be used for specific purposes.

- Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the manager to modify the appropriation by resource within funds.

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

10. Pensions

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

NOTE 2: DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's 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

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the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S.159-31 when designating official depositories and verifying deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$251,103 and a bank balance of \$152,957. The bank balance was fully covered by federal depository insurance. The Town maintains a petty cash fund of \$248.

2. Investments

At June 30, 2019, the Town had \$528,505 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's as of June 30, 2019. The Town has no policy regarding credit risk. The Town's Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

3. Receivables

The amounts presented in the Balance Sheet are net of the allowances for doubtful accounts:

General Fund	
Taxes receivable	\$ 14,174
Accounts Receivable	<u>19,310</u>
	<u>\$ 33,484</u>

Receivables at the government-wide level at June 30, 2019, were as follows:

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	<u>Accounts</u>	<u>Taxes and Related Accrued Interest</u>	<u>Due from other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 636	\$ 20,889	\$ 18,674	\$ 40,199
Allowance for doubtful accounts	-	(2,200)	-	(2,200)
Total governmental activities	<u>\$ 636</u>	<u>\$ 18,689</u>	<u>\$ 18,674</u>	<u>\$ 37,999</u>
Business-Type Activities				
Water fund	\$ 34,917	\$ -	\$ 1,662	\$ 36,579
Due to General Fund	-	-	-	-
Allowance for doubtful accounts	-	-	-	-
Total business-type activities	<u>\$ 34,917</u>	<u>\$ -</u>	<u>\$ 1,662</u>	<u>\$ 36,579</u>
	<u>Governmental</u>	<u>Business-Type</u>		
Local option sales tax	\$ 9,198	\$ -		
Sales tax	2,899	1,662		
Fire tax	6,577	-		
	<u>\$ 18,674</u>	<u>\$ 1,662</u>		

4. Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2019 was as follows:

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	<u>June 30, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 480,856	\$ -	\$ -	\$ 480,856
Total capital assets not being depreciated	<u>480,856</u>	<u>-</u>	<u>-</u>	<u>480,856</u>
Capital assets being depreciated:				
Buildings	623,561	32,635	-	656,196
Equipment	1,925,312	-	-	1,925,312
Vehicles	387,208	297,157	22,065	662,300
Infrastructure	74,762	-	-	74,762
Total capital assets being depreciated	<u>3,010,843</u>	<u>329,792</u>	<u>22,065</u>	<u>3,318,570</u>
Less accumulated depreciation for:				
Buildings	166,846	11,205	-	178,051
Equipment and furniture	1,244,933	133,805	-	1,378,738
Vehicles	365,828	47,228	22,065	390,991
Infrastructure	33,043	3,905	-	36,948
Total accumulated depreciation	<u>1,810,650</u>	<u>\$ 196,143</u>	<u>\$ 22,065</u>	<u>1,984,728</u>
Total capital assets being depreciated, net	<u>1,200,193</u>			<u>1,333,842</u>
Governmental activity capital assets, net	<u>\$ 1,681,049</u>			<u>\$ 1,814,698</u>

Depreciation was charged to governmental functions as follows:

General Government	\$ 2,633
Public Safety	185,302
Public Works	<u>7,978</u>
Total depreciation expense	<u>\$196,143</u>

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Notes to the Financial Statements
June 30, 2019

	<u>June 30, 2018</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2019</u>
Business-Type Activities:				
Water Fund:				
Capital Assets Not Being Depreciated:				
Land	\$ 7,221	\$ -	\$ -	\$ 7,221
Construction in progress	257,476	281,633	-	539,109
Total capital assets not being depreciated	<u>264,695</u>	<u>281,633</u>	<u>-</u>	<u>546,330</u>
Capital Assets Being Depreciated:				
Water and sewer systems	5,486,299	-	-	5,486,299
Vehicles	24,018	-	-	24,018
Infrastructure	6,250	-	-	6,250
Total capital assets being depreciated	<u>5,516,567</u>	<u>-</u>	<u>-</u>	<u>5,516,567</u>
Less Accumulated depreciation for:				
Water and sewer systems	1,778,958	93,161	-	1,872,119
Vehicles	24,018	-	-	24,018
Infrastructure	5,956	295	-	6,251
Total accumulated depreciation	<u>1,808,932</u>	<u>\$ 93,456</u>	<u>\$ -</u>	<u>1,902,388</u>
Total capital assets being depreciated, net	<u>3,707,635</u>			<u>3,614,179</u>
Business-type capital assets, net	<u>\$ 3,972,330</u>			<u>\$ 4,160,509</u>

B. Liabilities

1. **Payables**

Payables at the government-wide level at June 30, 2019, were as follows:

	<u>Vendors</u>	<u>Other</u>	<u>Total</u>
Governmental Activities:			
General	\$ -	\$ 4,711	\$ 4,711
Total governmental activities	<u>\$ -</u>	<u>\$ 4,711</u>	<u>\$ 4,711</u>
Business-Type Activities:			
Water	\$ 10,278	\$ -0-	\$ 10,278
Total business-type activities	<u>\$ 10,278</u>	<u>\$ -0-</u>	<u>\$ 10,278</u>

2. **Pension Plan Obligations**

a) **Local Government Retiree's System**

Plan Description The Town of Bakersville 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. LGER membership is comprised of general employees and law enforcement officers (LEOs) of participating local

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government entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, and 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, or by calling (919) 981-5454.

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 services. 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 year 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 member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon the 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 at age 50 with 15 years 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 or service and who also have completed either 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 if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Bakersville employees are required to contribution 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Bakersville's contractually required contribution rate for the year ended June 30, 2019 was 8.25% of compensation for law enforcement officers and 7.71% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is

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expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan for the Town of Bakersville were \$10,602 for the year ended June 30, 2019.

Refunds of Contributions – Town employees who have terminated service as a contributing member of LGERS may file an application for 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 employee 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, 2019, the Town reported a liability of \$51,480 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2018. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long term share of future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019, the Town's proportion was .00217%, which was an increase of .00008% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2019, the Town recognized pension expense of \$12,994. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 7,972	\$ 266
Changes of assumptions	13,661	
Net difference between projected and actual earnings on pension plan investments	7,067	
Changes in proportion and differences between employer contributions and proportionate share of contributions	258	2,114
Town contributions subsequent to the measurement date	10,602	
Total	\$ 39,530	\$ 2,380

\$10,602 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pension will be recognized in pension expense as follows:

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Year ended June 30:

2020	13,191
2021	8,522
2022	1,086
2023	3,748
2024	-
Thereafter	\$26,547

Actuarial Assumptions. The total pension liability in the December 31, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 percent, net of pension plan investment expense, including inflation

The plan 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 US population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2017 valuation were based on results of an actuarial experience study for the period January 1, 2010 through December 31, 2016.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2018 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2018 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 123,659	\$ 51,480	\$ (8,834)

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

b. Law Enforcement Officers Special Separation Allowance

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

TOWN OF BAKERSVILLE, NORTH CAROLINA
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All full-time Town law enforcement officers are covered by the Separation Allowance.

At December 31, 2017, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	1
Total	<u>1</u>

2. Summary of Significant Accounting Policies

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

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

3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2017 valuation. The total pension liability in the December 31, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.64 percent

The discount rate used to measure TPL is the weekly average of Bond Buyer General Obligation 20 year Municipal Bond Index determined at the end of each month.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

3. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town’s obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration

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costs of the Separation Allowance are financed through investment earnings. The Town paid out no benefits for the reporting period.

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

At June 30, 2019, the Town reported a total pension liability of \$17,174. The total pension liability was measured as of December 31, 2018 based on a December 31, 2017 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2018 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2019, the Town recognized pension expense of \$512.

	<u>Deferred Outflows of</u>	<u>Deferred Inflows of</u>
Differences between expected and actual experience	\$ 80	\$ 4,706
Changes of assumptions	982	907
Town benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	<u>\$ 1,062</u>	<u>\$ 5,613</u>

No amount reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the year ended June 30:

2020	\$ 932
2021	\$ 932
2022	\$ 932
2023	\$ 883
2024	\$ 872
Thereafter	\$ 0

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.64 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.64 percent) or 1-percentage-point higher (4.64 percent) than the current rate:

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	1% Decrease (2.64%)	Discount Rate (3.64%)	1% Increase (4.64%)
Total pension liability	\$ 18,738	\$ 17,174	\$ 15,706

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

Total Pension Liability as of December 31, 2017	\$ 22,151
Changes for the year:	
Service Cost at End of Year	744
Interest	700
Change in benefit terms	0
Difference between expected and actuarial Experience	(5,682)
Changes of assumptions and other inputs	(739)
Benefit payments	0
Other	<u>0</u>
Net changes	<u>(4,977)</u>
Total Pension Liability as of December 31, 2018	\$ 17,174

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2016.

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

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

TOWN OF BAKERSVILLE, NORTH CAROLINA
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	LGERS	LEOSSA	Total
Pension Expense	\$ 12,994	\$ 514	\$ 13,508
Pension Liability	51,480	17,174	68,654
Proportionate share of the net pension liability	0.21700%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	7,942	80	8,022
Changes of assumptions	13,661	982	14,643
Net difference between projected and actual earnings on plan investments	7,067	-	7,067
Changes in proportion and differences between contributions and proportionate share of contributions	258	-	258
Benefit payments and administrative costs paid subsequent to the measurement date	1,002	-	1,002
Deferred of Inflows of Resources			
Differences between expected and actual experience	266	4,706	4,972
Changes of assumptions	-	907	907
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	2,114	-	2,114

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are immediately vested. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$2,045, which consisted entirely of contributions from the Town.

3. Deferred Outflows and Inflows of Resources

Contributions to the pension plan in the current fiscal year were \$10,602. Total deferred

TOWN OF BAKERSVILLE, NORTH CAROLINA
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outflows were \$40,592.

The balance in deferred inflows of revenues at year-end is composed of the following:

	<u>Deferred Inflows</u>	<u>Unearned Revenues</u>
Prepaid tax	\$ 603	\$ 603
Taxes receivable	-	14,174
Pension deferrals	<u>7,731</u>	<u>-</u>
	<u>\$ 8,334</u>	<u>\$ 14,777</u>

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destructions of assets; errors and omissions; injuries to employees; and natural disasters. The Town maintains property/liability insurance as follows: general and automobile liability (\$1,000,000 each), automobile physical damage (actual), property-real and personal (\$2,657,908), faithful performance bonds (\$10,000), and public officials errors and omissions (\$1,000,000). Settled claims resulting from these risks have not exceeded coverage in any of the past three years. The Town participates in a self-funded risk financing pool administered by the North Carolina League of Municipalities. Through this pool, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to a \$2 million lifetime limit. The pool is reinsured through commercial companies for single occurrence claims against general liability, auto liability, and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pool is reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town carries flood insurance through The Standard Fire Insurance Company. Total coverage in the amount of \$11,900 per structure covers the building and none of the contents.

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

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Long-Term Obligations

Installment Purchase

The Town has entered into various direct placement installment purchase contracts comprised of the following:

- May 15, 2014, for the purchase of a fire truck. The agreement requires five annual payments of \$15,387 beginning on May 15, 2015, and an interest rate of 2.25%. The note was paid in full on May 15, 2019.
- July 28, 2016, for the purchase of a ladder fire truck. The agreement was modified to add an additional \$38,022 to the principal balance in July 2018. This additional principal was used to purchase other public safety equipment. The agreement requires three annual payments of \$22,998 beginning on July 20, 2019, including an interest rate of 2.25%.

The future minimum payments of the direct placement installment purchases as of June 30, 2019, including \$2,994 of interest, are as follows:

<u>30-June</u>	<u>Long Term Debt</u>
2020	22,998
2021	22,998
2022	22,998
Total	\$68,994

General Obligation Indebtedness

The general obligation bonds issues to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the faith, credit, and taxing power of the Town. In the event of a default, the Town agrees to pay to the purchaser, on demand, interest on any and all amounts due and owing by the Town under related agreements. Principal and interest requirements are appropriated when due.

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2019

Year Ending 30-Jun	Principal	Interest	Total
2020	8,000	10,474	18,474
2021	8,500	10,094	18,594
2022	8,500	9,690	18,190
2023	9,000	9,286	18,286
2024	9,500	8,859	18,359
2025-2029	52,500	37,216	89,716
2030-2034	63,500	23,703	87,203
2035-2038	61,000	7,363	68,363
			-
Total	<u>\$ 220,500</u>	<u>\$ 116,685</u>	<u>\$ 337,185</u>

Changes in Long-Term Liabilities

	Balance June 30, 2018	Increases	Decreases	Balance June 30, 2019	Current Portion of Balance
Governmental activities:					
Compensated absences	\$ 5,076		\$ 2,710	\$ 2,366	\$ 2,366
LGERS pension liability	29,905	15,912		45,817	-
LEO pension liability	22,151		5,341	16,810	-
Direct placement installment purchase contract	51,445	38,022	23,467	66,000	21,513
Governmental activity long-term liab	<u>\$ 108,577</u>	<u>\$ 53,934</u>	<u>\$ 31,518</u>	<u>\$ 130,993</u>	<u>\$ 23,879</u>
Business-type activities:					
Direct placement general obligation bonds	\$ 228,000	\$ -	\$ 7,500	\$ 220,500	\$ 8,000
LGERS pension liability	\$ 4,469	1,194	-	\$ 5,663	
Business-type activity long-term liab	<u>\$ 232,469</u>	<u>\$ -</u>	<u>\$ 7,500</u>	<u>\$ 226,163</u>	<u>\$ 8,000</u>

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	<u>\$ 727,077</u>
Less:	
Stabilization by State Statute	19,310
Beautification – McBee	65,266
Public Safety – Donor restricted	4,755
Powell Bill funds	6,610
Remaining Fund Balance	<u>\$ 631,136</u>

NOTE 3: JOINTLY GOVERNED ORGANIZATION

The Town, in conjunction with seven counties and eighteen municipalities, established the Region D Council of Governments (Council). The participating governments established the Council to coordinate various funding received from Federal and State agencies. Each participating government appoints one member to the Council's governing board, and this governing body selects the management and determines the budget and financing requirements of the Council. The Town paid membership fees of \$510 to the Council during the fiscal year ended June 30, 2019.

NOTE 4: SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

NOTE 5: SUBSEQUENT EVENTS

Management has evaluated subsequent events through August 29, 2019, the date which the financial statements were available to be issued.

Town of Bakersville
Proportionate Share of Net Pension (Liability) Asset
Required Supplementary Information
Last Six Fiscal Years

Local Government Employees Retirement System

	2019	2018	2017	2016	2015
Town's proportion of the net pension liability (asset) (%)	0.002170	0.002250	0.002210	0.001920	0.002000
Town's proportion of the net pension liability (asset) (\$)	51,480	34,374	46,904	8,617	(11,913)
Town's covered-employee payroll	124,207	121,672	114,891	111,575	72,715
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.414	0.283	0.408	0.077	(0.164)
Plan fiduciary net position as a percentage of the total pension liability		0.9418	0.9147	0.9809	1.0264

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

Town of Bakersville
Schedule of Contributions to the Local Government Employees' Retirement System
Required Supplementary Information
Last Six Fiscal Years

Local Government Employees Retirement System

	2019	2018	2017	2016	2015
Contractually required contribution	10,602	9,540	9,121	7,851	8,020
Contributions in relation to the contractually required contribution	10,602	9,540	9,121	7,851	8,020
Town's covered-employee payroll	132,837	124,207	121,672	114,891	111,575
Contributions as a percentage of covered-employee payroll	0.0798	0.0768	0.0750	0.0683	0.0719

See the accompanying Independent Auditor's Report.

Town of Bakersville, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2019

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 22,151	\$ 18,977	\$ 17,988
Service Cost	744	865	900
Interest on the total pension liability	700	733	642
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	(5,682)	118	-
Changes of assumptions or other inputs	(739)	1,458	(553)
Benefit payments	-	-	-
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 17,174</u>	<u>\$ 22,151</u>	<u>\$ 18,977</u>

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

Town of Bakersville, North Carolina

Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2019

	<u>2018</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 17,174	\$ 22,151	\$ 18,977
Covered payroll	40,914	41,239	39,915
Total pension liability as a percentage of covered payroll	41.98%	53.71%	47.54%

Notes to the schedules:

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

Town of Bakersville, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--
For the Fiscal Year Ended June 30, 2019

	2019		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Ad valorem:			
Taxes	\$	\$ 125,700	\$
Penalties and interest		1,804	
Total	124,500	127,504	3,004
Unrestricted intergovernmental:			
Local option sales tax		53,553	
Tax refunds		2,135	
Solid waste		333	
Utility franchise tax		41,794	
Total	94,500	97,815	3,315
Restricted intergovernmental:			
On behalf of - Fire and Rescue		161,480	
Powell Bill allocation		14,663	
Office of State Fire Marshall		34,220	
FEMA grant		235,715	
Total	440,290	446,078	5,788
Permits and fees:			
Court fees		198	
Citations		550	
Garbage fees		8,273	
Total	7,200	9,021	1,821
Investment earnings	2,500	11,133	8,633
Miscellaneous:			
Contribution		32,512	
Other		4,850	
Total	39,440	37,362	(2,078)
Total revenues	708,430	728,913	20,483

See the accompanying independent auditor's report.

Town of Bakersville, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--
For the Fiscal Year Ended June 30, 2019

	2019		Variance Favorable (Unfavorable)
	Budget	Actual	
Expenditures:			
General government -			
Administration			
Salaries and employee benefits		31,465	
Other operating expenditures		99,215	
Total	155,495	130,680	24,815
Total general government	155,495	130,680	24,815
Public safety -			
Police Department:			
Salaries and employee benefits		49,813	
Other operating expenditures		10,885	
Total	60,933	60,698	235
Fire:			
Salaries and employee benefits		36,150	
Other operating expenditures		160,409	
Capital outlay		241,186	
Total	458,283	437,745	20,538
Total public safety	519,216	498,443	20,773
Public works:			
Streets and highways:			
Salaries and employee benefits		26,242	
Powell Bill expense		8,073	
Other operating expenditures		22,638	
Total	63,915	56,953	6,962
Health and Sanitation			
Salaries and employee benefits		11,660	
Other operating expenditures		2,397	
Total	14,800	14,057	743
Total public works	78,715	71,010	7,705
Debt service -			
Principal retirement		23,847	

See the accompanying independent auditor's report.

Town of Bakersville, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--
For the Fiscal Year Ended June 30, 2019

	2019		Variance Favorable (Unfavorable)
	Budget	Actual	
Interest and fees		1,109	
Total debt service	25,004	24,956	48
Total expenditures	778,430	725,089	53,341
Revenue over (under) expenditures	(70,000)	3,824	73,824
Other financing sources (uses):			
Operating transfers in (out)			
Proceeds from loan	38,000	38,022	(22)
Total other financing sources (uses)	38,000	38,022	22
Excess of revenues and other sources over (under) expenditures and other uses	(32,000)	41,846	(73,846)
Appropriated fund balance	32,000	-	(32,000)
Excess of revenues, other sources and appropriated fund balance over (under) expenditures and other uses	\$ -	41,846	\$ 41,846
Fund balances - beginning of year		685,231	
Fund balances - end of year		\$ 727,077	

See the accompanying independent auditor's report.

Town of Bakersville, North Carolina
Water & Sewer Fund
Schedule of Revenues and Expenditures--Budget and Actual-- (Non-GAAP)
For the Fiscal Year Ended June 30, 2019

	2019		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Operating revenue			
Water sales	\$	\$ 78,843	\$
Sewer charges		65,973	
Taps and fees		810	
Other		3,720	
Total operating revenues	<u>142,500</u>	<u>149,346</u>	<u>6,846</u>
Non operating revenue			
Interest on investments		13	
Federal and State grants		281,634	
Total operating revenues	<u>2,051,000</u>	<u>281,647</u>	<u>(1,769,353)</u>
Total revenues	<u>2,193,500</u>	<u>430,993</u>	<u>(1,762,507)</u>
Expenditures:			
Water department			
Salaries and employee benefits		15,805	
Utilities		15,423	
Maintenance and repairs		19,430	
Supplies and materials		4,904	
Other departmental expenditures		6,671	
Total general government	<u>80,170</u>	<u>62,233</u>	<u>17,937</u>
Sewer department			
Utilities		12,084	
Maintenance and repairs		6,488	
Supplies and materials		1,533	
Contract services		14,900	
Total general government	<u>44,000</u>	<u>35,005</u>	<u>8,995</u>
Budgetary appropriations			
Principal retirement		7,500	
Interest and fees		10,830	
Capital outlay		-	
Total debt service and other	<u>2,069,330</u>	<u>18,330</u>	<u>2,051,000</u>
Total expenditures	<u>2,193,500</u>	<u>115,568</u>	<u>2,077,932</u>
Revenue over (under) expenditures	<u>-</u>	<u>315,425</u>	<u>2,084,778</u>

See the accompanying Independent Auditor's Report.

Town of Bakersville, North Carolina
Water & Sewer Fund
Schedule of Revenues and Expenditures--Budget and Actual-- (Non-GAAP)
For the Fiscal Year Ended June 30, 2019

	2019		Variance Favorable (Unfavorable)
	Budget	Actual	
Reconciliation from Budgetary Basis (Modified Accrual \$ to Full Accrual:	-	315,425	\$ 315,425
Capital outlay		(281,634)	
Principal retirement		7,500	
Depreciation		(93,456)	
Pension costs and deferrals		(14)	
Total reconciling items:		(367,604)	
Change in net position		\$ (52,179)	

Town of Bakersville, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2019

	Uncollected Balance June 30, 2018	Additions	Collections and Credits	Uncollected Balance June 30, 2019
2018 - 2019	\$ -	\$ 124,688	\$ 121,483	\$ 3,205
2017 - 2018	3,571	-	1,955	1,616
2016 - 2017	2,105	-	965	1,140
2015 - 2016	2,123	-	751	1,372
2014 - 2015	1,349	-	124	1,225
2013 - 2014	2,343	-	1,046	1,297
2012 - 2013	1,194	-	113	1,081
2011 - 2012	866	-	228	638
2010 - 2011	1,444	-	130	1,314
2009 - 2010	1,384	-	1,384	-
	<u>\$ 14,995</u>	<u>\$ 124,688</u>	<u>\$ 128,179</u>	<u>\$ 12,888</u>
Less: allowance for uncollectible accounts: General Fund				<u>(2,200)</u>
Ad valorem taxes receivable - net General Fund				<u>\$ 10,688</u>
Reconciliation with revenues:				
Ad valorem taxes - General Fund				<u>\$ 127,504</u>
Reconciling items:				
Write off				2,479
Interest collected				<u>(1,804)</u>
Total reconciling items				<u>675</u>
Total collections and credits				<u>\$ 128,179</u>

Town of Bakersville, North Carolina
Analysis of Current Tax Levy
Town-Wide Levy
For the Fiscal Year Ended June 30, 2019

	Town-wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year rate	\$ 30,411,764	0.41	\$ 124,688	\$ 108,443	\$ 16,564
Total	<u>30,411,764</u>		<u>124,688</u>	<u>108,443</u>	<u>16,564</u>
Total property valuations	<u>30,411,764</u>				
Net levy			124,688	108,443	16,564
Uncollected taxes at June 30, 2019			<u>3,206</u>	<u>3,206</u>	<u>-</u>
Current year's taxes collected			\$ <u>121,482</u>	\$ <u>105,237</u>	\$ <u>16,564</u>
Current year's collection percentage			<u>97.43%</u>	<u>97.04%</u>	<u>100.00%</u>

See the accompanying Independent Auditor's Report.

Town of Bakersville, North Carolina
Capital Projects Fund - Water and Sewer
Schedule of Revenue, Expenditures and Changes in Fund Balances--
Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental revenues					
CDBG #15-I-2760	\$ 1,999,500	\$ 257,474	\$ 281,634	\$ 539,108	\$ (1,460,392)
Total revenues	<u>1,999,500</u>	<u>257,474</u>	<u>281,634</u>	<u>539,108</u>	<u>(1,460,392)</u>
Expenditures					
Public Water Improvements	1,652,625	47,974	185,009	232,983	1,419,642
Engineering	343,375	174,500	96,625	271,125	72,250
Administration and Environmental	55,000	35,000	-	35,000	20,000
Total expenditures	<u>2,051,000</u>	<u>257,474</u>	<u>281,634</u>	<u>539,108</u>	<u>1,511,892</u>
Revenues over (under) expenditures	(51,500)	-	-	-	51,500
Other financing sources and uses					
Transfers in (out) - general fund	51,500	-	-	-	(51,500)
Total other financing sources	<u>51,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(51,500)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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

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

We have audited, in accordance with the 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 financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Bakersville (the Town), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town of Bakersville's basic financial statements, and have issued our report thereon dated August 29, 2019.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's

financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

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

Purpose of this Report

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

Young, Miller & Gillespie, P.A.

Young, Miller & Gillespie, P.A.
Spruce Pine, North Carolina
August 29, 2019