

**TOWN OF HAYESVILLE
NORTH CAROLINA
FINANCIAL STATEMENTS
JUNE 30, 2019**

Turner & Company CPAs P.A.

31 Peachtree Street • Murphy, NC 28906

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Town of Hayesville, North Carolina
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June 30, 2019

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INTRODUCTORY INFORMATION

TOWN OF HAYESVILLE, NORTH CAROLINA

TOWN COUNCIL

Joe Slaton
Will Penland
Austin Hedden

MAYOR

Harry Baughn

FINANCE OFFICER / TOWN CLERK

Susan Morgan

DEPUTY FINANCE OFFICER

Harry Baughn

FINANCIAL SECTION

Turner & Company CPAs P.A.

31 Peachtree Street • Murphy, NC 28906 • Phone (828) 837-8188 • Fax (828) 837-5313

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Hayesville, 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Town's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Town'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 and each major fund of the Town of Hayesville, North Carolina as of June 30, 2019, and the respective changes in financial position 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 3 through 9 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Hayesville, 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. In our opinion, based on our audit, the procedures performed as described above, the budgetary schedule and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 18, 2019 on our consideration of the Town of Hayesville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Hayesville's internal control over financial reporting and compliance.

Turner & Company CPAs P.A.

Turner & Company CPAs P.A.
Murphy, North Carolina

November 18, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

Town of Hayesville, North Carolina
Management Discussion and Analysis
June 30, 2019

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

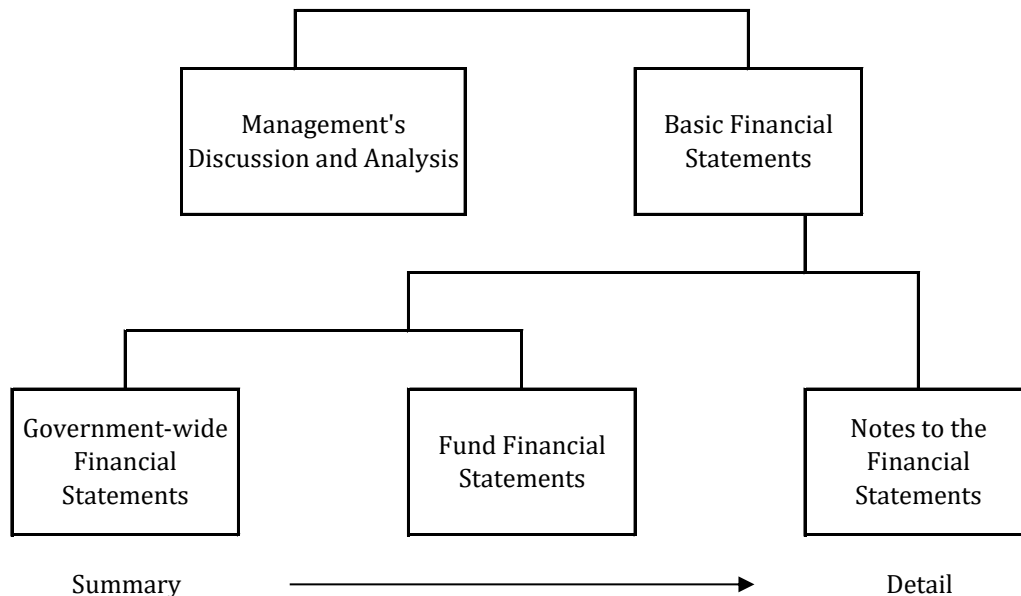
- The assets and deferred outflows of resources of the Town of Hayesville exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$1,267,525 (*net position*).
- The government's total net position increased \$68,330. Key factors of this increase were the receipt of CDBG grant funds of \$145,478, less the corresponding \$50,000 annual loan forgiveness. The remaining \$150,000 loan receivable will be forgiven in three remaining increments of \$50,000 each year provided that the private owner maintains a business in the building.
- As of the close of the current fiscal year, the Town of Hayesville's governmental funds reported combined ending fund balances of \$491,098 with a net increase of \$24,234 in fund balance. Approximately 18.96 percent of this total amount, or \$93,096, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$398,002, or 198.85 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Town of Hayesville'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 Hayesville.

Required Components of Annual Financial Reports

Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison 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 fund. Budgetary information required by the North Carolina General Statutes can be found in this part of the statements.

Government-wide Financial Statements

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

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

The government-wide statements consist of only governmental activities. The governmental activities include all of the Town's basic services such as public safety, streets & sidewalks, environmental protection, economic & physical development, culture & recreation, and general government. Property taxes and State tax distributions finance most of these activities. The Town does not conduct any business-type activities.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Hayesville, 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 the funds of the Town of Hayesville are accounted for within the governmental fund.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. The Town's basic services are accounted for in the governmental fund. This fund focuses on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between 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 Hayesville 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 Council 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 council; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 18 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain supplementary information. Supplementary information can be found beginning on page 29 of this report.

Government-Wide Financial Analysis

Town of Hayesville's Net Position

Figure 2

	Governmental Activities 2019	Total 2019	Total 2018
Assets			
Current and other assets	\$ 502,867	\$ 502,867	\$ 622,728
Other non-current assets	150,000	150,000	-
Capital assets	624,470	624,470	687,310
Deferred outflows of resources	-	-	-
Total assets and deferred outflows of resources	1,277,337	1,277,337	1,310,038
Liabilities			
Other liabilities	9,812	9,812	165,365
Deferred inflows of resources	-	-	-
Total liabilities and deferred inflows of resources	9,812	9,812	165,365
Net position			
Invested in capital assets	624,470	624,470	687,310
Restricted	93,096	93,096	90,585
Unrestricted	549,959	549,959	366,778
Total net position	\$ 1,267,525	\$ 1,267,525	\$ 1,144,673

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town exceed liabilities and deferred inflows by \$1,267,525 as of June 30, 2019. The Town's net position increased by \$68,330 for the fiscal year ended June 30, 2019. However, the largest portion (49.20%) reflects the Town's investment in capital assets (e.g. land, buildings, and office equipment). The Town of Hayesville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the Town of Hayesville's net position, \$93,096 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$549,959 is unrestricted.

Particular aspects of the Town's financial operations positively influenced the total unrestricted governmental net assets:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 96.92%, which is reasonable when compared to the statewide average of 99.25% for units of comparable size. Auto taxes are almost 100% due to the changes in the collection process implemented by the State of the North Carolina in recent years.
- The Mayor and Town Council continue to be very conservative in their spending while continuing to make improvements in the Town.

Town of Hayesville Changes in Net Position

Figure 3

	Governmental Activities 2019	Total 2019	Total 2018
Revenues:			
Program revenues:			
Charges for services	\$ 2,555	\$ 2,555	\$ 2,400
Operating grants & contributions	30,399	30,399	26,537
Capital grants & contributions	146,852	146,852	58,389
General revenues:			
Property taxes	99,903	99,903	99,666
Unrestricted intergovernmental	83,059	83,059	84,314
Unrestricted investment earnings	4,304	4,304	3,608
Miscellaneous	3,142	3,142	3,116
Total revenues	370,214	370,214	278,030
Expenses:			
General government	123,361	123,361	110,434
Public safety	9,661	9,661	8,599
Transportation	59,318	59,318	70,367
Environmental protection	42,779	42,779	33,177
Economic & physical development	64,818	64,818	14,466
Culture & recreation	1,500	1,500	1,500
Interest on long-term debt	447	447	1,010
Total expenses	301,884	301,884	239,553

Increase in net position before transfers	68,330	68,330	38,477
Transfers	(50,000)	(50,000)	-
Increase in net position after transfers	18,330	18,330	38,477
Net position, beginning as previously stated	1,144,673	1,144,673	1,160,718
Prior period adjustment	54,522	54,522	-
Net position, beginning as restated	1,199,195	1,199,195	1,160,718
Net position, ending	\$ 1,217,525	\$ 1,217,525	\$ 1,199,195

Governmental Activities. Governmental activities increased the Town's net position by \$68,330. Key elements of this increase are as follows:

- Capital grants & contributions increased due to the receipt of the remaining CDBG funds. Economic & physical development expenditures increased during the current fiscal year due to the annual 25% loan forgiveness.

Financial Analysis of the Town's Funds

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

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

The general fund is the only operating fund of the Town of Hayesville. At the end of the current fiscal year, the Town of Hayesville's fund balance available in the General Fund was \$398,002, while total fund balance reached \$491,098.

At June 30, 2019, the governmental fund of the Town of Hayesville reported a general fund balance of \$491,098 with a net increase in fund balance of \$24,234.

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

The amendments to the General Fund decreased expenditures by \$21,150.

Capital Asset and Debt Administration

Capital Assets. The Town of Hayesville's investment in capital assets for its governmental activities as of June 30, 2019, totals \$624,470 (net of accumulated depreciation). These assets include buildings, streets & sidewalks, land, and equipment.

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

Figure 4

	Governmental Activities 2019	Total 2019
Capital Assets		
Land	\$ 92,500	\$ 92,500
Buildings & Improvements	432,500	432,500
Streets & Sidewalks	99,470	99,470
Total Capital Assets	\$ 624,470	\$ 624,470

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

Long-term Debt. As of June 30, 2019, the Town of Hayesville total debt had been paid off.

	2019	2018
General obligation bonds	\$ -	\$ 11,000

Economic Factors and Next Year's Budgets and Rates

The following key economic indicator reflect the growths and prosperity of the Town.

- ☐ The Town did not experience any significant growth from the prior year. As a result of the State mandated "Tag and Tax Together" program motor vehicle tax collections were 100%.

Budget Highlights for the Fiscal Year Ending June 30, 2020.

Governmental Activities:

- ☐ The Town Council has approved the appropriation of expenditures in the amount of \$207,740 for the 2019-2020 fiscal year ending June 30, 2020.
- ☐ The millage rate will remain at \$0.265 on each \$100 assessed valuation of taxable property as listed inside the town limits of Hayesville.

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 Director of Finance, Town of Hayesville, PO Box 235, Hayesville, NC 28904.

BASIC FINANCIAL STATEMENTS

Town of Hayesville, North Carolina
Statement of Net Position
June 30, 2019

	Primary Government	
	Governmental Activities	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 398,002	\$ 398,002
Restricted cash and cash equivalents	84,063	84,063
Taxes receivables (net)	1,667	1,667
Accrued interest receivable on taxes	290	290
Due from other governments	18,845	18,845
Total current assets	<u>502,867</u>	<u>502,867</u>
Non-current assets:		
Loan Receivable (Note)	150,000	150,000
Capital assets:		
Land	92,500	92,500
Other capital assets, net of depreciation	531,970	531,970
Total capital assets	<u>624,470</u>	<u>624,470</u>
Total non-current assets	<u>774,470</u>	<u>774,470</u>
Total assets	<u>1,277,337</u>	<u>1,277,337</u>
DEFERRED OUTFLOWS OF RESOURCES	-	-
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	9,812	9,812
Total current liabilities	9,812	9,812
Long-term liabilities:		
Due in more than one year	-	-
Total liabilities	<u>9,812</u>	<u>9,812</u>
DEFERRED INFLOWS OF RESOURCES	-	-
NET POSITION		
Net investment in capital assets	624,470	624,470
Restricted for:		
Stabilization by State Statute	9,033	9,033
Transportation	84,063	84,063
Unrestricted	549,959	549,959
Total net position	<u>\$ 1,267,525</u>	<u>\$ 1,267,525</u>

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

**Town of Hayesville, 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	Primary Government Total
Primary government:						
Governmental Activities:						
General government	\$ 123,361	\$ -	\$ 11,550	\$ 1,374	\$ (110,437)	\$ (110,437)
Public safety	9,661	-	-	-	(9,661)	(9,661)
Transportation	59,318	-	12,343	-	(46,975)	(46,975)
Environmental protection	42,779	-	6,506	-	(36,273)	(36,273)
Economic & physical development	64,818	2,555	-	145,478	83,215	83,215
Cultural and recreation	1,500	-	-	-	(1,500)	(1,500)
Interest on long-term debt	447	-	-	-	(447)	(447)
Total governmental activities	301,884	2,555	30,399	146,852	(122,078)	(122,078)
Total primary government	\$ 301,884	\$ 2,555	\$ 30,399	\$ 146,852	(122,078)	(122,078)
General revenues:						
Taxes:						
Property taxes, levied for general purpose					99,903	99,903
Unrestricted intergovernmental					83,059	83,059
Unrestricted investment earnings					4,304	4,304
Miscellaneous					3,142	3,142
Total general revenues and transfers					190,408	190,408
Change in net position					68,330	68,330
Net position, beginning as previously stated					1,144,673	1,144,673
Prior period adjustment					54,522	54,522
Net position, beginning as restated					1,199,195	1,199,195
Net position, ending					\$ 1,267,525	\$ 1,267,525

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

Town of Hayesville, North Carolina
Balance Sheet
Governmental Funds
June 30, 2019

	<u>Major Funds</u>	
	<u>General</u>	<u>Total Governmental Funds</u>
ASSETS		
Cash and cash equivalents	\$ 398,002	\$ 398,002
Restricted cash	84,063	84,063
Receivables, net:		
Taxes	1,667	1,667
Due from other governments	18,845	18,845
Total assets	<u>502,577</u>	<u>502,577</u>
LIABILITIES		
Liabilities:		
Accounts payable and accrued liabilities	9,812	9,812
Total liabilities	<u>9,812</u>	<u>9,812</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	1,667	1,667
Total deferred inflows of resources	1,667	1,667
Fund balances:		
Nonspendable	-	-
Restricted		
Stabilization by State Statute	9,033	9,033
Streets	84,063	84,063
Unassigned, general fund	398,002	398,002
Total fund balances	<u>491,098</u>	<u>491,098</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 502,577</u>	<u>\$ 502,577</u>

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

**Town of Hayesville
Balance Sheet
Reconciliation of the Governmental Funds
Balance Sheet to the Statement of Net Position
June 30, 2019**

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

Total Fund Balance, Governmental Funds	\$	491,098
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.

Gross capital assets at historical cost	\$	1,346,513	
Accumulated depreciation		<u>(722,043)</u>	624,470

Other long-term assets (accrued interest receivable from taxes) are not available to pay for current-period expenditures and therefore are inflows of resources in the funds.	290
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Loan receivable proceeds for CDBG funds expensed as capital outlay in the fund statements.	150,000
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Liabilities for earned revenues considered deferred inflows of resources in fund statements.	1,667
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		<hr/>
Net position of governmental activities	\$	<u><u>1,267,525</u></u>

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

Town of Hayesville, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2019

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Downtown Redevelopment Fund</u>	
REVENUES			
Ad valorem taxes	\$ 99,547	\$ -	\$ 99,547
Unrestricted intergovernmental	83,059	-	83,059
Restricted intergovernmental	18,849	145,478	164,327
Permits and fees	2,555	-	2,555
Other restricted revenues	1,374	-	1,374
Investment earnings	4,304	-	4,304
Miscellaneous	3,142	-	3,142
Total revenues	<u>212,830</u>	<u>145,478</u>	<u>358,308</u>
EXPENDITURES			
Current:			
General government	107,331	-	107,331
Public safety	9,661	-	9,661
Transportation	12,507	-	12,507
Environmental protection	42,779	-	42,779
Economic and physical development	14,818	145,478	160,296
Culture and recreation	1,500	-	1,500
Debt service:			
Principal	11,000	-	11,000
Interest and other charges	550	-	550
Total expenditures	<u>200,146</u>	<u>145,478</u>	<u>345,624</u>
Excess (deficiency) of revenues over expenditures	12,684	-	12,684
OTHER FINANCING SOURCES (USES)			
Contribution from Clay County - Water Bond	11,550	-	11,550
Total other financing sources (uses)	<u>11,550</u>	<u>-</u>	<u>11,550</u>
Net change in fund balance	24,234	-	24,234
Fund balances, beginning	<u>466,864</u>	<u>-</u>	<u>466,864</u>
Fund balances, ending	<u>\$ 491,098</u>	<u>\$ -</u>	<u>\$ 491,098</u>

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

Town of Hayesville, North Carolina
Reconciliation of Statement of Revenues, Expenditures, and Changes in Fund
Balance of 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	\$	24,234
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay		148,957
Depreciation expense for governmental assets		(66,319)

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

Change in unavailable revenue for tax revenues		388
Accrued interest on delinquent taxes		(32)

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

Forgiveness of principal payments - loan receivable		(50,000)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statements of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long-term debt		11,000
Accrued interest payable		103

Due to rounding		(1)
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Total changes in net position of governmental activities	\$	68,330
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The notes to the financial statements are an integral part of this statement.

Town of Hayesville, North Carolina
General Fund
Statement of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - General Fund
For the Year Ended June 30, 2019

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 95,500	\$ 99,175	\$ 99,547	\$ 372
Unrestricted intergovernmental	63,180	83,643	83,059	(584)
Restricted intergovernmental	12,600	18,850	18,849	(1)
Permits and fees	1,350	2,555	2,555	-
Other restricted revenues	18,500	1,752	1,374	(378)
Investment earnings	3,100	2,840	4,304	1,464
Miscellaneous	2,800	2,760	3,142	382
Total revenues	<u>197,030</u>	<u>211,575</u>	<u>212,830</u>	<u>1,255</u>
Expenditures:				
Current:				
General government	105,420	107,359	107,331	28
Public safety	10,120	9,706	9,661	45
Transportation	39,600	12,839	12,507	332
Environmental protection	34,800	43,605	42,779	826
Economic and physical development	21,090	14,871	14,818	53
Cultural and recreation	-	1,500	1,500	-
Debt service:				
Principal retirement	11,000	11,000	11,000	-
Interest and other charges	550	550	550	-
Total expenditures	<u>222,580</u>	<u>201,430</u>	<u>200,146</u>	<u>1,284</u>
Revenues over (under) expenditures	(25,550)	10,145	12,684	2,539
Other financing sources (uses):				
Contribution from Clay County - Water Bond	11,550	11,550	11,550	-
Total other financing sources (uses)	<u>11,550</u>	<u>11,550</u>	<u>11,550</u>	<u>-</u>
Fund balance appropriated (reserved for subsequent years)	14,000	(21,695)	-	21,695
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	24,234	<u>\$ 24,234</u>
Fund balances, beginning			<u>466,864</u>	
Fund balances, ending			<u>\$ 491,098</u>	

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

NOTES TO THE FINANCIAL STATEMENTS

Town of Hayesville, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2019

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town of Hayesville is a municipal corporation which is governed by an elected mayor and a three-member council.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

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

Fund Financial Statements: The fund financial statements provide information about the Town's funds. A separate statement for the governmental fund category is presented. The emphasis of fund financial statements is on major governmental funds.

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 that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, government grants, and various other taxes and licenses. The primary expenditures are for public safety, street & sidewalk maintenance and construction, sanitation services, and economic & physical development.

Downtown Redevelopment Capital Project Fund - This fund is used to account for the rehabilitation of a private building located at 893 US 64 Business.

The Town has no non-major governmental funds.

C. Measurement Focus and Basis of Accounting

In accordance with North Carolina General Statutes, the general fund of the Town is maintained during the year using the modified accrual basis of accounting.

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

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

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, and claims and judgments, 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 a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than 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 limited registration plate are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

D. Budgetary Data

The Town's budget is adopted as required by North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at the fiscal year-end. The budget is prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for the multi-year funds. All amendments must be approved by the governing council and the Council must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town did not have any of these types of investments as of June 30, 2019.

2. Cash and Cash Equivalents

All cash and investments are essentially demand deposits and are considered cash and cash equivalents.

3. Restricted Assets

Cash restricted for special purposes has been segregated from cash for general operations. Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing or widening of local streets or sidewalks per G.S. 136-41.4. The unexpended grant proceeds that are restricted by revenue source are also classified as restricted cash. Money in the Downtown Redevelopment Fund is classified as restricted assets because its use is restricted to fund the project.

Town of Hayesville Restricted Cash

Governmental activities	
General Fund	
Streets and sidewalks - Powell Bill Funds	<u>\$ 84,063</u>
Total governmental activities	<u><u>\$ 84,063</u></u>

4. Ad Valorem Taxes Receivable

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

5. Allowances for Doubtful Accounts

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

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and estimated useful life in excess of two years. Minimum capitalization cost is \$5,000 as recommended by the North Carolina LGC. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. 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>
Buildings	40
Improvements	25
Streets & sidewalks	10
Vehicles	5
Signs	10
Furniture and equipment	10
Computer equipment	5

7. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town does not have any items that meet this criteria. 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 future period and so will not be recognized as revenue until then. The Town has only one item that meets the criteria for this category - property taxes receivable.

8. Long-Term Obligations

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

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

9. Net Position/Fund Balance**Net Position**

Net position in government-wide financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represent constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through state statute. The Town applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position are available.

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 either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

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

Restricted for Stabilization by State statute - North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". *Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget.*

Per GASB guidance, RSS is considered a resource upon which a restriction is “imposed by law through constitutional provisions or enabling legislation.” RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

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

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

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

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

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

10. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. Stewardship, Compliance, and Accountability

A. Significant Violations of Finance-Related Legal and Contractual Provisions

1. Noncompliance with North Carolina General Statutes

None Noted.

2. Contractual Violations

None Noted.

B. Deficit in Fund Balance of Individual Funds Not Appropriated in Subsequent Year's Budget Ordinance

None Noted.

C. Excess of Expenditures over Appropriations

None Noted

III. 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 agent in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in the Town's names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method.

The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$482,065 and a bank balance of \$482,981. All bank balances were covered by federal depository insurance. At June 30, 2019, the Town's petty cash fund totaled \$100.

2. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2019 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	\$ 2,784
Total	<u>\$ 2,784</u>

3. Loan Receivable

Loan receivable consists of a loan to a local businessman, Dan McGlamery, in the Town of Hayesville from funds supplied by the North Carolina Department of Commerce as part of a Community Development Block Grant for economic development in 2017. The loan of the funds to the borrower shall be automatically and permanently forgiven, and no repayment of the said loan by the borrower (whether principal or interest) will be required, if all terms and conditions of the loan agreement are complied with by the borrower and the borrower maintains ownership of the property for a four (4) year period following the loan closing on July 14, 2017. Upon violation of one or more of the terms and conditions of the loan documents and the violation is not corrected within 30 days of notification the borrower agrees to repay the lender according to the year of the four year period the violation was discovered. The future forgiveness payments are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>
2020	\$ 50,000
2021	50,000
2022	50,000
Total	<u>\$ 150,000</u>

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2019, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 92,500	\$ -	\$ -	\$ 92,500
Construction in Progress	3,479	3,479	6,958	-
Total capital assets not being depreciated	95,979	3,479	6,958	92,500
Capital assets being depreciated:				
Buildings & improvements	593,439	6,958	-	600,397
Signs	5,939	-	-	5,939
Streets & sidewalks	640,882	-	-	640,882
Equipment	6,795	-	-	6,795
Total capital assets being depreciated	1,247,055	6,958	-	1,254,013
Less accumulated depreciation for:				
Buildings & improvements	148,389	19,508	-	167,897
Signs	5,939	-	-	5,939
Streets & sidewalks	494,601	46,811	-	541,412
Equipment	6,795	-	-	6,795
Total accumulated depreciation	655,724	66,319	-	722,043
Total capital assets being depreciated, net	591,331			531,970
Governmental activity capital assets, net	<u>\$ 687,310</u>			<u>\$ 624,470</u>

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

General government	\$ 19,508
Transportation	46,811
Total depreciation expense	<u>\$ 66,319</u>

B. Liabilities

1. Payables

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

	Vendors	Other	Total
Governmental Activities:			
General Fund	\$ 9,812	\$ -	\$ 9,812
Total-governmental activities:	<u>\$ 9,812</u>	<u>\$ -</u>	<u>\$ 9,812</u>

2. Deferred Outflows and Inflows of Resources

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

Source	Amount
Taxes receivable (General Fund), less penalties	<u>\$ 1,667</u>

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two (2) self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability coverage of \$5 million per occurrence, property coverage up to the total insurance values of the property policy, and workers' compensation coverage up to statutory limits. The property liability pool has an aggregate limit for the total property losses in a single year. The Town does not carry flood insurance.

There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three (3) fiscal years.

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

4. Claims, Judgments and Contingent Liabilities

At June 30, 2019, the Town was not a defendant in any types of lawsuits.

5. Long-Term Obligations

a. General Obligation Indebtedness

The Town's general obligation bond serviced by the governmental funds was issued to finance the construction of facilities utilized in the operations of the Town's water and sewer system. In 1995 Clay County took over the administration of the water and sewer system and assumed ownership of the water and sewer lines. However, the bond remains in the name of the Town of Hayesville. The Town continues to make the annual bond payments. Clay County reimburses the Town for the payment. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

Bonds payable at June 30, 2019, are comprised of the following individual issues:

General Obligation Bonds

Serviced by the General Fund:

\$229,000, 1983 Water Bond due on June 1, in annual installments as follows through July 1, 2019; interest at 5.00 percent. The Bond was originally provided by the U.S. Farmers Home Administration. It is now being administered by Berkadia Commercial Mortgage. As of June 30, 2019 the debt was completely paid off. No other debt was incurred during the year.

b. Changes in Long-Term Liabilities

The following is a summary of changes in the Town's long-term obligations for the fiscal year ended June 30, 2019:

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental Activities:					
General obligation bonds	\$ 11,000	\$ -	\$ 11,000	\$ -	\$ -
Total governmental activities	\$ 11,000	\$ -	\$ 11,000	\$ -	\$ -

C. Net Investment in Capital Assets

Capital assets - Governmental	\$ 624,470
Net investment in capital assets	\$ 624,470

D. 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	\$ 491,098
Less:	
Stabilization by State Statute	9,033
Streets - Powell Bill	84,063
Remaining Fund Balance	398,002

IV. Contributions

The Town appropriates in the budget each year monetary contributions to local non-profit organizations to assist in their operations. Such organizations include the Peacock Playhouse, the Moss Library and the Clay County Communities Revitalization Association (CC CRA).

V. RestatementsPrior Period Adjustment

During the fiscal year ended June 30, 2019, the Town determined that capital assets in the government-wide statements were understated. Therefore, an adjustment to beginning net position has been recorded, the net effect of which increased beginning net position by \$54,522. The rehabilitation expenditures of a privately owned business building were properly recorded in the General Fund, therefore, beginning fund balance was not affected.

VI. New Accounting Pronouncements***Pronouncements effective for the 2019 Financial Statements:***

In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations and sets the guidance for determining the timing and pattern of recognition for liabilities and corresponding deferred outflow of resources related to asset retirement obligations. This pronouncement did not impact the Town.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established. This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt. The Town has implemented GASB No. 88 and modified the note disclosures related to debt.

Pronouncements issued, but not yet effective, which will be adopted by the Town in future years. As of the date of this report, the Town has not determined the financial impact of implementing the following Statements:

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. This Statement establishes criteria for identifying fiduciary activities of all state and local governments.

The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2018.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. This new standard aims to provide consistency in the reporting of majority equity interests and improve the relevance of information related to certain component units. The requirements of GASB 90 are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. Most provisions will be applied on a retroactive basis; however, provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest will be applied prospectively.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

VII. Significant Effects of Subsequent Events

The Town has evaluated subsequent events through November 18, 2019 the date the financial statements were available to be issued, for events requiring recording or disclosure in the financial statements of the year ended June 30, 2019. No events have occurred which would have a material effect on the financial statements of the Town as of that date.

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

MAJOR GOVERNMENTAL FUNDS

The Town has 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 property taxes, intergovernmental tax distributions, and grants.

Downtown Redevelopment Capital Project Fund. This fund is used to account for the rehabilitation of a private building located at 893 US 64 Business. The project is 100% funded by the North Carolina Department of Commerce Community Block Grant Program.

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

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes		\$ 99,020	
Penalties and interest		527	
Total	\$ 99,175	99,547	\$ 372
Unrestricted intergovernmental:			
Local option sales taxes		40,319	
Alcohol/beverage tax		1,620	
Solid waste tax		279	
Utility franchise tax		40,841	
Total	83,643	83,059	(584)
Restricted intergovernmental:			
State recycling grant		6,506	
Powell Bill allocation		12,343	
Total	18,850	18,849	(1)
Permits and fees:			
Zoning permits & fees		2,555	
Total	2,555	2,555	-
Other restricted revenues:			
Other grants & contributions		1,374	
Total	1,752	1,374	(378)
Investment earnings	2,840	4,304	1,464
Miscellaneous:			
Miscellaneous Income		3,142	
	2,760	3,142	382
Total revenues	211,575	212,830	1,255
Expenditures:			
General government:			
Administration:			
Salaries and employee benefits		24,593	
Other operating expenditures		32,578	
Capital outlay		-	
Total		57,171	

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

	Budget	Actual	Variance Positive (Negative)
Finance:			
Salaries and employee benefits		20,400	
Other operating expenditures		1,697	
Total		<u>22,097</u>	
Taxes:			
Collection fees		2,399	
Other operating expenditures		31	
Total		<u>2,430</u>	
Legal & audit:			
Contracted services		6,000	
		<u>6,000</u>	
Public buildings:			
Other operating expenditures		16,154	
Capital outlay		3,479	
Total		<u>19,633</u>	
Total general government	<u>102,959</u>	<u>107,331</u>	<u>(4,372)</u>
Public safety:			
Fire:			
Fire service contract		6,644	
Other operating expenditures		309	
Total		<u>6,953</u>	
Police:			
Contribution to sheriff's patrol		2,000	
Other operating expenditures		708	
Total		<u>2,708</u>	
Total public safety	<u>9,706</u>	<u>9,661</u>	<u>45</u>
Transportation:			
Street lights		11,009	
Other operating expenditures		1,498	
Total streets & sidewalks	<u>13,539</u>	<u>12,507</u>	<u>1,032</u>
Environmental protection:			
Solid waste:			
Contracted services		25,880	
Other operating expenditures		8,740	
Landfill fees		8,159	
Total environmental protection	<u>43,605</u>	<u>42,779</u>	<u>826</u>

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Economic and physical development:			
Planning & zoning:			
Salaries and employee benefits		12,600	
Other operating expenditures		2,218	
Total economic and physical development	<u>18,571</u>	<u>14,818</u>	<u>3,753</u>
Culture and Recreation:			
Libraries:			
Contribution to Moss Memorial Library		1,500	
Total culture and recreation	<u>1,500</u>	<u>1,500</u>	<u>-</u>
Debt service:			
Principal retirement		11,000	
Interest and other charges		550	
Total debt service	<u>11,550</u>	<u>11,550</u>	<u>-</u>
Total expenditures	<u>201,430</u>	<u>200,146</u>	<u>1,284</u>
Revenues over (under) expenditures	10,145	12,684	2,539
Other financing sources (uses):			
Contribution from Clay County - Water Bond	11,550	11,550	-
Total	<u>11,550</u>	<u>11,550</u>	<u>-</u>
Fund balance appropriated for subsequent years	(21,695)	-	21,695
Net change in fund balance	<u>\$ -</u>	24,234	<u>\$ 24,234</u>
Fund balances, beginning		<u>466,864</u>	
Fund balances, ending		<u>\$ 491,098</u>	

Town of Hayesville, North Carolina
Downtown Redevelopment Capital Project Fund
Schedules of Revenues and Expenditures, and Changes in Fund Balance - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2019

	Actual				Variance Positive (Negative)
	Project Authorization	Prior Years	Current Year	Total to Date	
Revenues:					
Restricted intergovernmental:					
Community Development Building Grant	\$ 200,000	\$ 54,522	\$ 145,478	\$ 200,000	\$ -
Total revenues	200,000	54,522	145,478	200,000	-
Expenditures:					
Construction	200,000	54,522	145,478	200,000	-
Total expenditures	200,000	54,522	145,478	200,000	-
Revenues over (under) expenditures	\$ -	\$ -	\$ -	\$ -	\$ -

OTHER SCHEDULES

This section contains additional information on property taxes.

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

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

Fiscal Year	Uncollected Balance June 30, 2018	Additions	Collections And Credits	Uncollected Balance June 30, 2019
2018-2019	\$ -	\$ 100,162	\$ 97,215	\$ 2,947
2017-2018	1,760	-	1,404	356
2016-2017	318	-	232	86
2015-2016	109	-	22	87
2014-2015	157	-	65	92
2013-2014	134	-	(16)	150
2012-2013	193	-	12	181
2011-2012	259	-	114	145
2010-2011	255	-	19	236
2009-2010	181	-	10	171
	<u>\$ 3,366</u>	<u>\$ 100,162</u>	<u>\$ 99,077</u>	<u>\$ 4,451</u>
Less: allowance for uncollectible accounts: General Fund				<u>(2,784)</u>
Ad valorem taxes receivable - net				<u>\$ 1,667</u>
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				\$ 99,547
Reconciling items:				
Interest and penalties				(527)
Adjustments and credits				57
Subtotal				<u>(470)</u>
Total collections and credits				<u>\$ 99,077</u>

Town of Hayesville, 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	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current	\$ 35,777,219	0.265	\$ 94,810	\$ 90,232	\$ 4,578
Penalties	77		77	77	-
Total	<u>35,777,296</u>		<u>94,887</u>	<u>90,309</u>	<u>4,578</u>
Discoveries:					
Current year taxes	2,063,396	0.265	5,468	5,468	-
Prior year taxes	-		-	-	-
Penalties	-		-	-	-
	<u>37,840,692</u>		<u>100,355</u>	<u>95,777</u>	<u>4,578</u>
Abatements	<u>(72,830)</u>	0.265	<u>(193)</u>	<u>(193)</u>	<u>-</u>
Total property valuation	<u>\$ -</u>				
Net levy			100,162	95,584	4,578
Unpaid (by taxpayer) taxes at June 30, 2019			<u>2,947</u>	<u>2,947</u>	<u>-</u>
Current year's taxes collected			<u>\$ 97,215</u>	<u>\$ 92,637</u>	<u>\$ 4,578</u>
Current levy collection percentage			<u>97.06%</u>	<u>96.92%</u>	<u>100.00%</u>

Compliance Section

Turner & Company CPAs P.A.

31 Peachtree Street • Murphy, NC 28906 • Phone (828) 837-8188 • Fax (828) 837-5313

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

To the Honorable Mayor and
The Town Council
Hayesville, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities and each major fund of the Town of Hayesville, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise Town of Hayesville's basic financial statements, and have issued our report thereon dated November 18, 2019.

Internal Control over Financial Reporting

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

Purpose of this Report

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

Turner & Company CPAs P.A.

Turner & Company CPAs P.A.
Murphy, North Carolina

November 18, 2019

Town of Hayesville, North Carolina
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2019

I. Summary of Auditors' Results

Financial Statements

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

Internal control over financial reporting:

- Material weakness(es) identified? ___ yes X no
- Significant deficiency(s) ___ yes X none reported

Noncompliance material to financial statements noted ___ yes X no

II. Financial Statement Findings

None reported.