

TOWN OF OLD FORT, NORTH CAROLINA

Financial Statements, Management's Discussion and Analysis,
Supplemental Schedules and Independent Auditors' Report
For the Year Ended June 30, 2019

Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

TOWN OF OLD FORT, NORTH CAROLINA

LIST OF PRINCIPAL OFFICIALS

June 30, 2019

Mayor & Board of Aldermen

Mayor	Rickey Hensley
Aldermen	Andrew Carlton Jamie Grindstaff Jimmie Harris Melvin Lytle, Jr. Wayne Stafford

Town Administration

Town Attorney	Larry McMahon
Finance Officer	Renee' Taylor
Police Chief	Melvin Lytle, Jr.
Public Works Director	Melvin Lytle, Jr.

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TOWN OF OLD FORT, NORTH CAROLINA

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Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

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Independent Auditors' Report

To the Honorable Mayor and
Members of the Board of Aldermen
Town of Old Fort, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Old Fort, 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 of Old Fort, North Carolina's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Old Fort, North Carolina, as of June 30, 2019, and the respective changes in financial position, and, where applicable, cash flows 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, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, on pages 4-11 and 45-48, 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.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated October 28, 2019 on our consideration of the Town of Old Fort, North Carolina'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 the effectiveness of the Town of Old Fort, North Carolina's 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 Old Fort, North Carolina's internal control over financial reporting and compliance.

Low Smith Church & Co., L.L.P.

Morganton, North Carolina
October 28, 2019

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Management's Discussion and Analysis

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

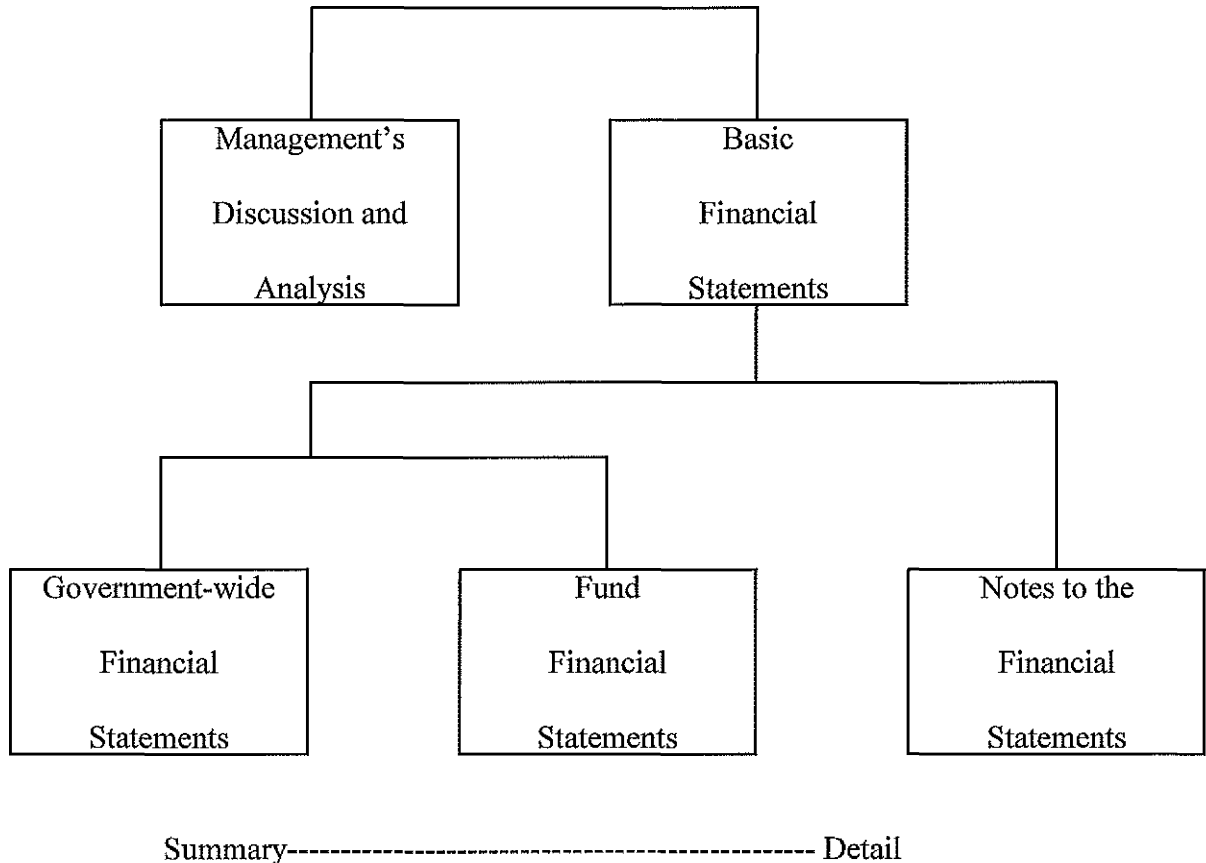
Financial Highlights

- The assets and deferred outflows of resources of the Town of Old Fort exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$9,844,224 (net position).
- The government's total net position decreased by \$91,333 due to decreases in the governmental and decreases in the business-type activities net position.
- As of the close of the current fiscal year, the Town of Old Fort's governmental funds reported combined ending fund balances of \$1,943,341, with a net change of \$40,175 in fund balance. Approximately 4.59 percent of this total amount, or \$89,221, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,854,120 or 210.05 percent of total General Fund expenditures for the fiscal year.
- The Town of Old Fort's total debt increased by \$63,091 or 6.99% during the current fiscal year. The key factor in this increase was the issuance of debt and an increase in pension related debt.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Old Fort'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 Old Fort.

Required Components of Annual Financial Report
Figure 1



Basic Financial Statements

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

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

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

Government-Wide Financial Statements

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

The two government-wide statements report the Town's net position and how 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 assets is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, transportation, and general administration. 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. These include the water and sewer services offered by the Town of Old Fort.

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 Old Fort, 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 Old Fort can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called modified accrual accounting which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between 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 Old Fort adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds - The Town of Old Fort has one proprietary fund. Enterprise Funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town of Old Fort 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 begin on page 22 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Old Fort's progress in funding its obligation to provide pension benefits to its employees. Required Supplementary information can be found beginning on page 45 of this report.

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

Government-Wide Financial Analysis

The Town of Old Fort's Net Position						
Figure 2						
	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$1,989,546	\$1,963,050	\$ 984,489	\$ 953,989	\$ 2,974,035	\$ 2,917,039
Capital assets	1,950,315	1,953,606	5,855,059	6,018,105	7,805,374	7,971,711
Deferred outflows of resources	<u>97,821</u>	<u>65,579</u>	<u>13,586</u>	<u>6,335</u>	<u>111,407</u>	<u>71,914</u>
Total assets and deferred outflows of resources	<u>4,037,682</u>	<u>3,982,235</u>	<u>6,853,134</u>	<u>6,978,429</u>	<u>10,890,816</u>	<u>10,960,664</u>
Long-term liabilities outstanding	204,858	120,214	760,972	782,524	965,830	902,738
Other liabilities	28,708	41,221	48,723	77,434	77,431	118,655
Deferred outflows of resources	<u>3,249</u>	<u>3,403</u>	<u>83</u>	<u>311</u>	<u>3,332</u>	<u>3,714</u>
Total liabilities and deferred outflows of resources	<u>236,815</u>	<u>164,838</u>	<u>809,778</u>	<u>860,269</u>	<u>1,046,593</u>	<u>1,025,107</u>
Net position:						
Net investment in capital assets	1,908,053	1,953,606	5,110,059	5,243,105	7,018,112	7,196,711
Restricted	89,221	55,669	-	-	89,221	55,669
Unrestricted	<u>1,803,594</u>	<u>1,808,122</u>	<u>933,297</u>	<u>875,055</u>	<u>2,736,891</u>	<u>2,683,177</u>
Total net position	<u>\$3,800,868</u>	<u>\$3,817,397</u>	<u>\$6,043,356</u>	<u>\$6,118,160</u>	<u>\$ 9,844,224</u>	<u>\$ 9,935,557</u>

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Old Fort exceeded liabilities and deferred inflows by \$9,844,224 as of June 30, 2019. The Town's net position decreased by \$139,937 for the fiscal year ended June 30, 2019. However, the largest portion (71.29%) reflects the Town's net investment in capital assets (e.g., land, buildings, machinery, and equipment). The Town of Old Fort uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Old Fort's net

investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Old Fort's net position, \$89,221, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,736,891 is unrestricted.

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

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 98.53%, which is comparable to the statewide average, for units without electrical systems, of 99.19%.
- Operating grants of \$213,082.
- Governmental activities revenues decreased and expenditures decreased accordingly.
- Business-type activities revenues increased and expenditures increased. Expenditures increased due to increases in maintenance in the current year.

Town of Old Fort
Changes in Net Position

Figure 3

	2019			2018		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Revenues:						
Program revenues:						
Charges for services	\$ 42,993	\$ 549,466	\$ 592,459	\$ 44,840	\$ 520,709	\$ 565,549
Operating grants and contributions	66,232	213,082	279,314	62,457	86,918	149,375
Capital grants and contributions	-	-	-	100,000	-	100,000
General revenues:						
Property taxes	373,425	-	373,425	363,785	-	363,785
Other taxes	368,126	-	368,126	357,844	-	357,844
Other	33,425	11,774	45,199	24,447	8,342	32,789
Gain on sale of assets	37,500	-	37,500	-	-	-
Total revenues	<u>921,701</u>	<u>774,322</u>	<u>1,696,023</u>	<u>953,373</u>	<u>615,969</u>	<u>1,569,342</u>
Expenses:						
General government	378,294	-	378,294	397,323	-	397,323
Public safety	334,941	-	334,941	290,739	-	290,739
Transportation	188,504	-	188,504	233,133	-	233,133
Environmental protection	35,099	-	35,099	39,706	-	39,706
Interest	1,392	-	1,392	323	-	323
Water and sewer	-	849,126	849,126	-	755,905	755,905
Total expenses	<u>938,230</u>	<u>849,126</u>	<u>1,787,356</u>	<u>961,223</u>	<u>755,905</u>	<u>1,717,129</u>
Increase (decrease) in net position	<u>\$ (16,529)</u>	<u>\$ (74,804)</u>	<u>\$ (91,333)</u>	<u>\$ (7,850)</u>	<u>\$ (139,937)</u>	<u>\$ (147,787)</u>
Net position, July 1, restated	\$ 3,817,397	\$ 6,118,160	\$ 9,935,557	\$ 3,825,247	\$ 6,258,097	\$10,083,344
Increase (decrease) in net position	<u>(16,529)</u>	<u>(74,804)</u>	<u>(91,332)</u>	<u>(7,850)</u>	<u>(139,937)</u>	<u>(147,786)</u>
Net position - June 30	<u>\$3,800,868</u>	<u>\$ 6,043,356</u>	<u>\$ 9,844,224</u>	<u>\$ 3,817,397</u>	<u>\$ 6,118,160</u>	<u>\$ 9,935,557</u>

Governmental activities. Governmental activities decreased the Town's net position by \$16,529. Key elements of this decrease are as follows:

- Capital grants were decreased \$100,000.
- Decrease in expenditures in the general government function.
- Property and other taxes were slightly higher than the prior year.
- Continued efforts to maximize tax collections.

Business-type activities: Business-type activities decreased the Town of Old Fort's net position by \$74,804. Key elements for this decrease are as follows:

- Increase in charges for services decreased the current year loss.
- Increase in operating expenditures.
- No new major industries.
- Increase in grant income.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Old Fort'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 Old Fort's financing requirements.

The General Fund is the chief operating fund of the Town of Old Fort. At the end of the current fiscal year, the Town of Old Fort's fund balance available in the General Fund was \$1,887,722, while total fund balance reached \$1,943,341. The Town currently has an available fund balance of 213.86 percent of General Fund expenditures, while total fund balance represents 220.16 percent of the same amount.

At June 30, 2019, the governmental funds of the Town of Old Fort reported a combined fund balance of \$1,943,341, with a net increase in fund balance of \$40,175. Included in this change in fund balance is an increase in fund balance in the General Fund.

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

Highlights include the following:

Anticipation of hurricane recovery damages revenue and related expenses.

To reallocate various expenses among line items.

Proprietary Funds. The Town of Old Fort'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 \$933,297. The total change in net position for this fund was \$(74,804). The change in net position in the Water and Sewer Fund is the result of an increase in operating revenues due to the continued replacement of old meters and an increase in expenditures.

Capital Asset and Debt Administration

Capital Assets. The Town of Old Fort's investment in capital assets for its governmental and business-type activities as of June 30, 2019 totals \$7,805,374 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions and disposals:

- The Town purchased several vehicles for \$69,700, land and improvements of \$18,435, a mower for \$5,595 and a water line was installed for 16,500.

Town of Old Fort's Capital Assets
(Net of Depreciation)

Figure 4

	2019			2018		
	Governmental Activities	Business-type Activities	Total	Governmental Activities	Business-type Activities	Total
Land	\$ 252,694	\$ 5,006	\$ 257,701	\$ 252,694	\$ 5,006	\$ 257,701
Building and improvements	1,504,077	-	1,504,077	1,532,374	-	1,532,374
Furniture and equipment	151,862	141,822	293,684	123,729	135,002	258,732
Infrastructure	41,683	-	41,683	44,809	-	44,809
Distributions systems	-	5,708,231	5,708,231	-	5,878,096	5,878,096
Construction in progress	-	-	-	-	-	-
Total	<u>\$1,950,315</u>	<u>\$5,855,059</u>	<u>\$7,805,374</u>	<u>\$1,953,606</u>	<u>\$6,018,105</u>	<u>\$7,971,711</u>

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 Old Fort had total bonded debt outstanding of \$745,000. Of this, \$745,000 is debt backed by the full faith and credit of the Town.

Town of Old Fort's Outstanding Debt
Figure 5

	Governmental Activities		Business-type Activities		Total	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
General obligation bonds	\$ -	\$ -	\$745,000	\$775,000	\$745,000	\$775,000
Installment purchase	42,262	-	-	-	42,262	-
Pension related debt (LGERS)	102,171	65,043	15,972	7,524	118,143	72,567
Pension related debt (LEO)	<u>60,424</u>	<u>55,171</u>	<u>-</u>	<u>-</u>	<u>60,424</u>	<u>55,171</u>
Total	<u>\$204,857</u>	<u>\$120,214</u>	<u>\$760,972</u>	<u>\$782,524</u>	<u>\$965,829</u>	<u>\$902,738</u>

Town of Old Fort's Outstanding Debt

The Town of Old Fort's total debt increased by \$63,091, (6.99%) during the past fiscal year, primarily due to the issuance of debt and an increase in pension related debt.

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 Old Fort is \$8,555,139.

Additional information regarding Town of Old Fort's long-term debt can be found in Note III-B-4 beginning on page 41 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town:

- Moderate unemployment. McDowell County, which includes the Town of Old Fort, has an unemployment rate of 4.2%. This is below the State average of 4.4%.
- A new elementary school is being built and will be finished in August.
- Two new businesses are anticipated in the next year. A clothing manufacturer that will employ approximately 50 employees and a brewery and restaurant.

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities: Revenues from various sources are expected to increase slightly in the coming year with an overall increase in budgeted revenues to \$857,500. Budgeted expenditures in the General Fund are expected to increase accordingly. The Town's tax rate will remain at 0.32 per \$100 valuation of property. Fees have not increased from the prior year. The Town has not appropriated fund balance in the fiscal year 2020 budget. Management believes that increased revenues and continued restrictions on spending will maintain the Town's financial position.

Business-type Activities: Water and sewer rates in the Town will increase 5%, effective 7/1/19 and 1/1/20. The Town has budgeted revenues to decrease 34.21% from the prior year's budget due to the receipt of grant funds of \$213,082 in the current year. Budgeted expenses are expected to increase accordingly.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report, or requests for additional information, should be directed to the Finance Officer, Town of Old Fort, 38 Catawba Avenue, Old Fort, N. C. 28762. You can also call 828-668-4244 or email at rtaylor@oldfortnc.com.

Basic Financial Statements

TOWN OF OLD FORT, NORTH CAROLINA

Exhibit 1

Statement of Net Position June 30, 2019

<u>Assets</u>	<u>Governmental Activities</u>	<u>Business- type Activities</u>	<u>Total</u>
Current assets:			
Cash and cash equivalents	\$ 1,882,828	\$ 845,844	\$ 2,728,672
Taxes receivable - net	17,497	-	17,497
Accounts receivable - net	53,687	103,104	156,791
Due from other governments	1,932	-	1,932
Inventory	-	5,090	5,090
Restricted cash and cash equivalents	33,602	30,450	64,052
Total current assets	<u>1,989,546</u>	<u>984,489</u>	<u>2,974,035</u>
Capital assets:			
Land, non-depreciable assets and construction in progress	252,694	5,006	257,700
Other capital assets, net of depreciation	1,697,622	5,850,053	7,547,674
Total capital assets	<u>1,950,315</u>	<u>5,855,059</u>	<u>7,805,374</u>
Total assets	<u>3,939,861</u>	<u>6,839,548</u>	<u>10,779,409</u>
<u>Deferred Outflows of Resources</u>			
Pension deferrals	<u>97,821</u>	<u>13,586</u>	<u>111,407</u>
<u>Liabilities</u>			
Current liabilities:			
Accounts payable and other current liabilities	28,708	18,273	46,981
Deposits	-	30,450	30,450
Long-term liabilities:			
Due within one year	9,340	31,500	40,840
Total current liabilities	<u>38,048</u>	<u>80,223</u>	<u>118,270</u>
Net pension liability	102,171	15,972	118,143
Total pension liability	60,424	-	60,424
Due in more than one year	32,923	713,500	746,423
Total liabilities	<u>233,565</u>	<u>809,695</u>	<u>1,043,260</u>
<u>Deferred Inflows of Resources</u>			
Pension deferrals	<u>3,249</u>	<u>83</u>	<u>3,332</u>
<u>Net Position</u>			
Net investment in capital assets	1,908,053	5,110,059	7,018,112
Restricted for:			
Stabilization by State Statute	55,619	-	55,619
Streets	33,549	-	33,549
Public safety	53	-	53
Unrestricted	1,803,594	933,297	2,736,891
Total net position	<u>\$ 3,800,868</u>	<u>\$ 6,043,356</u>	<u>\$ 9,844,224</u>

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

TOWN OF OLD FORT, NORTH CAROLINA

Exhibit 2

**Statement of Activities
For the Year Ended June 30, 2019**

Functions/Programs	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Change in Net Position</u>		
		<u>Charges for Services</u>	<u>Operating Grants and Contribution</u>	<u>Capital Grants and Contribution</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
Governmental activities:							
General government	\$ 378,294	\$ 1,698	\$ 1,719	\$ -	\$ (374,878)	\$ -	\$ (374,878)
Public safety	334,941	17,573	35,137	-	(282,231)	-	(282,231)
Transportation	188,504	-	29,376	-	(159,129)	-	(159,129)
Environmental protection	35,099	23,722	-	-	(11,376)	-	(11,376)
Interest on long-term debt	1,392	-	-	-	(1,392)	-	(1,392)
Total governmental activities	<u>938,230</u>	<u>42,993</u>	<u>66,232</u>	<u>-</u>	<u>(829,006)</u>	<u>-</u>	<u>(829,006)</u>
Business-type activities							
Water and sewer	849,126	549,466	213,082	-	-	(86,578)	(86,578)
Total	<u>\$1,787,356</u>	<u>\$ 592,459</u>	<u>\$ 279,314</u>	<u>\$ -</u>	<u>(829,006)</u>	<u>(86,578)</u>	<u>(915,583)</u>
General revenues:							
Taxes:							
Property taxes					373,425	-	373,425
Local option sales tax					160,860	-	160,860
Other taxes					207,266	-	207,266
Unrestricted investment earnings					15,723	3,742	19,466
Gain on sale of capital assets					37,500	-	37,500
Miscellaneous					17,703	8,032	25,734
Total general revenues, special items and transfers					812,476	11,774	824,250
Changes in net position					<u>\$ (16,529)</u>	<u>\$ (74,804)</u>	<u>\$ (91,333)</u>
Net position - beginning					\$ 3,817,397	\$ 6,118,160	\$ 9,935,557
Changes in net position					(16,529)	(74,804)	(91,333)
Net position - ending					<u>\$ 3,800,868</u>	<u>\$ 6,043,356</u>	<u>\$ 9,844,224</u>

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

TOWN OF OLD FORT, NORTH CAROLINA**Exhibit 3****Balance Sheet
Governmental Funds
June 30, 2019**

	Major Fund General Fund
<u>Assets</u>	
Cash and cash equivalents	\$ 1,882,828
Restricted cash and cash equivalents	33,602
Receivables (net):	
Taxes	17,497
Accounts	53,687
Due from other governments	<u>1,932</u>
Total assets	<u><u>\$ 1,989,546</u></u>
<u>Liabilities</u>	
Liabilities:	
Accounts payable and other current liabilities	<u>\$ 28,708</u>
<u>Deferred Inflows of Resources</u>	
Property taxes receivable	<u>17,497</u>
Total deferred inflows of resources	<u>17,497</u>
<u>Fund Balances</u>	
Restricted:	
Stabilization by State statute	55,619
Streets	33,549
Public safety	53
Unassigned	<u>1,854,120</u>
Total fund balances	<u>1,943,341</u>
Total liabilities, deferred inflows of resources and fund balances	<u><u>\$ 1,989,546</u></u>

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

TOWN OF OLD FORT, NORTH CAROLINA**Exhibit 4****Reconciliation of the Governmental Funds Balance Sheet
To the Statement of Net Position
For the Year Ended June 30, 2019**

Total governmental fund balances	\$ 1,943,341
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	
Gross capital assets at historical cost	3,512,075
Accumulated depreciation	(1,561,759)
Deferred outflows of resources related to pension are not reported in the funds	97,821
Earned revenues considered deferred inflows of resources in fund statements.	
Property taxes receivable	17,497
Long-term liabilities used in governmental activities are not financial uses and therefore, are not reported in the funds.	
Long-term debt	(42,262)
Net pension liability	(102,171)
Total pension liability	(60,424)
Deferred inflows of resources related to pensions are not reported in the funds	<u>(3,249)</u>
Net position of governmental activities	<u><u>\$ 3,800,868</u></u>

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

TOWN OF OLD FORT, NORTH CAROLINA**Exhibit 5****Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2019**

	Major Fund General Fund
Revenues:	
Ad valorem taxes	\$ 374,592
Other taxes and licenses	162,557
Unrestricted intergovernmental	207,266
Restricted intergovernmental	64,513
Investment earnings	15,723
Miscellaneous	<u>60,717</u>
Total revenues	<u>885,368</u>
Expenditures:	
General government	339,554
Public safety	358,707
Transportation	190,440
Environmental protection	34,861
Debt service:	
Principal retirement	6,738
Interest	<u>1,392</u>
Total expenditures	<u>931,693</u>
Revenues over (under) expenditures	(46,325)
Other Financing Sources (Uses):	
Proceeds of borrowing	49,000
Sale of capital assets	37,500
Transfers (to) from other funds	<u>-</u>
Net changes in fund balances	40,175
Fund balances, beginning	<u>1,903,166</u>
Fund balances, ending	<u><u>\$ 1,943,341</u></u>

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

TOWN OF OLD FORT, NORTH CAROLINA**Exhibit 6****Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances 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 \$ 40,175

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

Capital outlay expenditures which were capitalized	67,815
Depreciation expense for governmental assets	(71,106)
Proceeds from sale of fixed assets	(37,500)
Gain (loss) on disposal of fixed assets	37,500

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities 26,032

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

Change in unavailable revenue for tax revenues	(1,167)
--	---------

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 the governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Issuance of debt	(49,000)
Principal payments on long-term debt	6,738

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.

Pension expense	<u>(36,017)</u>
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Total changes in net position of governmental activities	<u>\$ (16,529)</u>
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The accompanying notes are an integral part of the financial statements.

TOWN OF OLD FORT, NORTH CAROLINA**Exhibit 7**

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

	General Fund			Variance
	Original Budget	Final Budget	Actual	Final Budget- Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 349,000	\$ 368,000	\$ 374,592	\$ 6,592
Other taxes and licenses	148,400	148,400	162,557	14,157
Unrestricted intergovernmental	192,000	192,000	207,266	15,266
Restricted intergovernmental	58,050	58,050	64,513	6,463
Investment earnings	6,500	12,500	15,723	3,223
Miscellaneous	53,100	175,250	60,717	(114,533)
Total revenues	<u>807,050</u>	<u>954,200</u>	<u>885,368</u>	<u>(68,832)</u>
Expenditures:				
General government	240,000	346,450	339,554	6,896
Public safety	339,550	364,050	358,707	5,343
Transportation	229,600	237,200	190,440	46,760
Environmental protection	31,600	38,300	34,861	3,439
Debt service:				
Principal retirement	6,000	6,808	6,738	70
Interest	300	1,392	1,392	-
Total expenditures	<u>847,050</u>	<u>994,200</u>	<u>931,693</u>	<u>62,507</u>
Revenues over (under) expenditures	(40,000)	(40,000)	(46,325)	(6,325)
Other Financing Sources (Uses):				
Proceeds of borrowing	40,000	40,000	49,000	9,000
Sale of capital assets	-	-	37,500	37,500
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	40,175	<u>\$ 40,175</u>
Fund balance, beginning			<u>1,903,166</u>	
Fund balance, ending			<u>\$ 1,943,341</u>	

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

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TOWN OF OLD FORT, NORTH CAROLINA**Exhibit 8****Statement of Fund Net Position
Proprietary Fund
June 30, 2019**

	<u>Water and Sewer Fund</u>
<u>Assets</u>	
Current assets:	
Cash and cash equivalents	\$ 845,844
Accounts receivable - net	103,104
Inventory	5,090
Restricted cash and cash equivalents	30,450
Total current assets	<u>984,489</u>
Capital assets:	
Land, non-depreciable assets and construction in progress	5,000
Other capital assets, net of depreciation	<u>5,850,059</u>
Total capital assets	<u>5,855,059</u>
Total assets	<u>6,839,548</u>
<u>Deferred Outflows of Resources</u>	
Pension deferrals	<u>13,586</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable and other current liabilities	18,273
Deposits	30,450
General obligation bond - current	<u>31,500</u>
Total current liabilities	<u>80,223</u>
Noncurrent liabilities:	
Net pension liability	15,972
General obligation bond - noncurrent	<u>713,500</u>
Total noncurrent liabilities	<u>729,472</u>
Total liabilities	<u>809,695</u>
<u>Deferred Inflows of Resources</u>	
Pension deferrals	<u>83</u>
<u>Net Position</u>	
Net investment in capital assets	5,110,059
Unrestricted	<u>933,297</u>
Total net position	<u>\$ 6,043,356</u>

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

TOWN OF OLD FORT, NORTH CAROLINA**Exhibit 9****Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2019**

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for services	\$ 429,825
Other operating revenues	<u>119,642</u>
Total operating revenues	<u>549,466</u>
Operating Expenses:	
Water treatment and distribution	396,659
Waste collection and treatment	212,243
Depreciation	<u>205,460</u>
Total operating expenses	<u>814,362</u>
Operating income (loss)	<u>(264,896)</u>
Nonoperating Revenues (Expenses):	
Miscellaneous	8,032
Interest on investments	3,742
Grant revenues	213,082
Interest expense	<u>(34,764)</u>
Total nonoperating revenues (expenses)	<u>190,092</u>
Change in net position	(74,804)
Total net position - beginning	<u>6,118,160</u>
Total net position - ending	<u><u>\$ 6,043,356</u></u>

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

TOWN OF OLD FORT, NORTH CAROLINA**Exhibit 10****Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2019**

	<u>Water and Sewer Fund</u>
Cash Flows From Operating Activities:	
Cash received from customers	\$ 517,364
Cash paid for goods and services	(537,635)
Cash paid to or on behalf of employees for services	<u>(87,792)</u>
Net cash provided by (used for) operating activities	<u>(108,063)</u>
Cash Flows From Non-Capital Financing Activities:	
Grant revenues	<u>213,082</u>
Cash Flows From Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(42,415)
Principal payments on capital lease, notes and general obligation bonds payable	(30,000)
Interest paid on capital lease, notes and general obligation bonds payable	(34,875)
Other non-operating receipts	<u>8,032</u>
Net cash provided by (used for) capital and related financing activities	<u>(99,258)</u>
Cash Flows From Investing Activities:	
Interest earned on investments	<u>3,742</u>
Net increase (decrease) in cash and cash equivalents	9,503
Cash and cash equivalents - beginning of year	<u>866,791</u>
Cash and cash equivalents - end of year	<u><u>\$ 876,294</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (264,896)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:	
Depreciation	205,460
Change in assets and liabilities:	
(Increase) decrease in accounts receivable	(32,102)
(Increase) decrease in inventory	11,106
(Increase) decrease in deferred outflows of resources - pensions	(7,251)
Increase (decrease) in accounts payable and accrued expenses	(28,455)
Increase (decrease) in customer deposits	(145)
Increase (decrease) in net pension liability	8,448
Increase (decrease) in deferred inflows of resources - pensions	<u>(228)</u>
Net cash provided by (used for) operating activities	<u><u>\$ (108,063)</u></u>

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

Notes to the Financial Statements

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TOWN OF OLD FORT, 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 Old Fort 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 Old Fort is a municipal corporation that is governed by an elected mayor and a five-member council.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the 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 are generally 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 expense 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 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. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as non-major funds.

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

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 expenditures are for public safety, street maintenance and construction, and sanitation services.

The Town does not have any non-major governmental fund:

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.

C. Measurement Focus and Basis of Accounting

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

Government-wide and Proprietary Fund Financial Statements - The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. 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, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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

Governmental Fund Financial Statements - Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance 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 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 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 shared revenue for the Town of Old Fort because the tax is levied by McDowell 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 grant, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets 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 by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal year end. Project ordinances are adopted for any Capital Projects and Special Revenue Funds and the Enterprise Fund Capital Projects Fund, if applicable. The enterprise fund projects are consolidated with their respective operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund, however, the Town Finance Officer is authorized by budget ordinance to transfer appropriations between functional areas within a fund. All amendments must be approved by the Board of Aldermen. The governing board must adopt an interim budget that covers the time until the annual ordinance can be adopted.

The Town is not required by State law (G.S. 159-26 (d)), to maintain encumbrance accounts which are considered to be "budgetary accounts". As such, the Town does not maintain encumbrance accounts.

E. Assets, Liabilities, Deferred Outflows/Inflows 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 principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust, (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT-Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income and considers all cash and investments to be cash and cash equivalents.

3. Restricted Assets

Customer deposits held by the Town before services are supplied and restricted to the service for which the deposit was collected. Powell Bill Funds are classified as restricted cash because they can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4. Federal Asset Seizure Funds are also classified as restricted cash because it can be expended only for the purposes of expenses associated with forfeited operations or used to finance certain general investigative expenses.

Town of Old Fort Restricted Cash

Governmental Activities

General Fund

Streets

\$33,549

Public safety

53

Total governmental activities

33,602

Business-type Activities

Water and Sewer Fund

Customer deposits

30,450

Total restricted cash

\$64,052

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. Inventory

The inventory of the Town is valued at cost (first-in, first out), which approximates market. The inventory of the Town's enterprise fund consists of materials and supplies held for subsequent use. The cost of the inventory is expensed when consumed rather than when purchased.

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$5,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$5,000; infrastructure, \$5,000; furniture and equipment, \$5,000; and vehicles, \$5,000. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or at estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired, or that received substantial improvements subsequent to July 1, 1980, and are reported at cost. The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend assets' lives is 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	30
Buildings	50
Improvements	25
Vehicles	6
Furniture and equipment	10
Computer equipment	3

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 has one item that meets this criterion, pension deferrals for 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 criterion for this category - property taxes receivable and pension deferrals.

8. Long-Term Obligations

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

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

9. Compensated Absences

Personnel policies of the Town require all Town employees to use their vacation time by June 15th of each year. Any vacation not taken as of June 15th is converted into sick time. Unused sick leave does not vest to the employee, and as such, is not paid upon termination. Unused current year's vacation accrual is paid upon termination.

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

10. Net Position/Fund Balances

Net Position

Net position in government-wide and proprietary fund financial statements is classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or 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 either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Inventories - the 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 - 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 non-spendable. 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.

Restricted for Streets - the 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 for Public Safety - the portion of fund balance that is restricted by revenue source for drug enforcement. This amount represents the balance of total unexpended Federal Asset Seizure Funds.

Committed Fund Balance - the portion of fund balance that can only be used for specific purposes imposed by a majority vote by quorum of Town of Old Fort'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 - the portion of fund balance that Town of Old Fort intends to use for specific purposes.

Subsequent year's expenditures - the portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed.

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 Old Fort does not have a formal revenue spending policy that provides guidance for programs with multiple revenue sources. However, the Finance Officer will use resources in the following hierarchy: bond proceeds, federal funds, State funds, local, non-city funds, city funds. For purposes of fund balance classification, expenditures are to be spent from restricted fund balance first, followed in-order by committed fund balance, assigned fund balance, and lastly, unassigned fund balance. The Finance Officer has the authority to deviate from this policy if it is in the best interest of the Town.

11. Defined Benefit Cost-Sharing Plans

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

F. Pensions

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

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

II. Stewardship, Compliance and Accountability

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

1. Noncompliance with North Carolina General Statutes

During our examination we found no instances of noncompliance.

2. Contractual Violations

During our examination we found no instances of contractual violations.

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 agents in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or 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 \$2,363,759 and a bank balance of \$2,412,237. Of the bank balance, \$250,000 was covered by federal depository insurance, and the remainder was covered by collateral held under the Pooling Method. At June 30, 2019, the Town's petty cash funds totaled \$60.

2. Investments

At June 30, 2019, the Town of Old Fort, North Carolina had \$428,906 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAm by Standard and Poor's. The Town has no policy regarding credit risk.

At June 30, 2019, the Town's investment balances were as follows:

<u>Investments by Type</u>	<u>Valuation Measurement Method</u>	<u>Book Value at 6/30/2019</u>	<u>Maturity</u>	<u>Rating</u>
N. C. Capital Management Trust - Government Portfolio	Amortized Cost	\$428,906	N/A	AAAm

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

Interest Rate Risk. The Town has no formal investment policy regarding interest rate risk.

Credit Risk. The Town has no formal policy regarding credit risk but has internal management procedures that limit the Town's investments to the provisions of G. S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated. The Town's investment in the N. C. Capital Management Trust Government Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2019.

3. Capital Assets

Capital assets activity for the year ended June 30, 2019 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 252,694	\$ -	\$ -	\$ 252,694
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>252,694</u>	<u>-</u>	<u>-</u>	<u>252,694</u>
Capital assets being depreciated:				
Buildings and improvements	2,283,405	18,815	-	2,302,220
Furniture and equipment	741,898	49,000	-	790,898
Infrastructure	<u>166,262</u>	<u>-</u>	<u>-</u>	<u>166,262</u>
Total capital assets being depreciated	<u>3,191,565</u>	<u>67,815</u>	<u>-</u>	<u>3,259,380</u>
Less accumulated depreciation for:				
Buildings and improvements	751,030	47,113	-	798,143
Furniture and equipment	618,170	20,867	-	639,037
Infrastructure	<u>121,453</u>	<u>3,126</u>	<u>-</u>	<u>124,579</u>
Total accumulated depreciation	<u>1,490,653</u>	<u>71,106</u>	<u>-</u>	<u>1,561,759</u>
Total capital assets being depreciated, net	<u>1,700,912</u>	<u>(3,291)</u>	<u>-</u>	<u>1,697,621</u>
Governmental activities capital assets, net	<u>\$ 1,953,606</u>	<u>\$ (3,291)</u>	<u>\$ -</u>	<u>\$1,950,315</u>

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

General government	\$47,618
Public safety	16,619
Transportation	6,632
Public works	<u>237</u>
Total depreciation expense	<u>\$71,106</u>

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Business-type Activities:				
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 5,006	\$ -	\$ -	\$ 5,006
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>5,006</u>	<u>-</u>	<u>-</u>	<u>5,006</u>
Capital assets being depreciated:				
Buildings and improvements	321,190	-	-	321,190
Plant and distribution systems	9,738,227	25,320	-	9,763,547
Furniture and equipment	<u>479,960</u>	<u>17,095</u>	-	<u>497,055</u>
Total capital assets being depreciated	<u>10,539,377</u>	<u>42,415</u>	-	<u>10,581,792</u>
Less accumulated depreciation for:				
Buildings and improvements	321,190	-	-	321,190
Plant and distribution systems	3,860,132	195,185	-	4,055,317
Furniture and equipment	<u>344,959</u>	<u>10,275</u>	-	<u>355,234</u>
Total accumulated depreciation	<u>4,526,280</u>	<u>205,460</u>	-	<u>4,731,740</u>
Total capital assets being depreciated, net	<u>6,013,099</u>	<u>(163,045)</u>	-	<u>5,850,052</u>
Business-type activities capital assets, net	<u>\$ 6,018,105</u>	<u>\$(163,045)</u>	<u>\$ -</u>	<u>\$ 5,855,059</u>

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

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

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Old Fort employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Old Fort's contractually required contribution rate for the year ended June 30, 2019, was 8.5% of compensation for law enforcement officers and 7.75% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Old Fort were \$30,012 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 a refund of their contributions. By State law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2019, the Town reported a liability of \$118,143 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2018. The total pension liability used to calculate the net pension liability 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 liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018 (measurement date), the Town's proportion was 0.00498%, which was an increase of 0.00023% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$33,899. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ 18,227	\$ 612
Changes of assumptions	31,350	-
Net difference between projected and actual earnings on pension plan investments	16,217	-
Changes in proportion, and differences between, Town contributions and proportionate share of contributions	4,597	-
Town contributions subsequent to the measurement date	<u>30,102</u>	<u>-</u>
Total	<u>\$100,493</u>	<u>\$ 612</u>

\$30,012 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2020	\$33,442
2021	22,036
2022	4,346
2023	9,954
2024	-
Thereafter	-

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	7.0 percent, net of pension plan investment expense, including inflation

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2017 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	<u>\$283,789</u>	<u>\$118,143</u>	<u>\$(20,274)</u>

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

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description

The Town of Old Fort administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of credible service or have attained 55 years of age and have completed five or more years of credible service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers are covered by the Separation Allowance. At December 31, 2016, 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	<u>3</u>
Total	<u>3</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, 2017 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 is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2017.

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

4. Contributions

The Town is required by Article 12D of G. S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established, and may be amended by, the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$-0- as benefits came due for the reporting period.

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

At June 30, 2019, the Town reported a total pension liability of \$60,424. 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 \$7,157.

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 8,450	\$ -
Changes of assumptions	2,464	2,720
Town benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	<u>\$ 10,914</u>	<u>\$2,720</u>

\$-0- 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, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in the pension expense as follows:

Year ended June 30:

2020	\$1,831
2021	1,831
2022	1,831
2023	1,929
2024	773
Thereafter	(1)

\$-0- paid as benefits came due, and \$-0- of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

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 one percentage point lower (2.64 percent) or one percentage point higher (4.64 percent) than the current rate:

	1% Decrease (2.64%)	Discount Rate (3.64%)	1% Increase (4.64%)
Total pension liability	<u>\$65,941</u>	<u>\$60,424</u>	<u>\$55,338</u>

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

Beginning balance	\$55,171
Service cost	3,583
Interest on the total pension liability	1,743
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of total pension liability	2,520
Changes of assumptions or other inputs	(2,593)
Benefit payments	-
Other changes	-
Ending balance of the total pension liability	<u>\$60,424</u>

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

The actuarial assumptions used in the December 31, 2017 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

	<u>LGERS</u>	<u>LEOSSA</u>	<u>Total</u>
Pension expense	\$ 33,899	\$7,157	\$41,056
Pension liability	118,143	60,424	178,567
Proportionate share of the net pension liability	0.00498%	n/a	
Deferred outflows of resources			
Differences between expected and actual experience	18,227	8,450	26,677
Changes of assumptions	31,350	2,464	33,814
Net difference between projected and actual earnings on plan investments	16,217	-	16,217
Changes in proportion, and differences between, contributions and proportionate share of contributions	4,597	-	4,597
Benefit payments and administrative costs paid subsequent to the measurement date	30,102	-	30,102
Deferred of inflows of resources			
Differences between expected and actual experience	612	-	612
Changes of assumptions	-	2,720	2,720
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion, and differences between, contributions and proportionate share of contributions	-	-	-

c. **Supplemental Retirement Income Plan for Law Enforcement Officers**

Plan Description - The Town contributes to the Supplemental Retirement Income Plan (the Plan), a defined contribution pension plan administered by the Department of the 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 vested immediately. The law enforcement officers may make voluntary contributions to the Plan. The Town made contributions of \$7,897 for the reporting year. No amounts were forfeited.

d. Other Employment Benefits

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

2. Deferred Outflows and Inflows of Resources

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

Contributions to pension plan in the current fiscal year	\$ 30,102
Benefit payments made and administrative expenses for LEOSSA	-
Differences between expected and actual experience	26,677
Changes of assumptions	33,814
Net difference between projected and actual	16,217
Changes in proportion, and differences between, employer contributions and proportionate share of contributions	<u>4,597</u>
Total	<u>\$111,407</u>

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Taxes receivable, less penalties (General Fund)	\$ -	\$ 17,497
Changes in assumptions	2,720	-
Differences between expected and actual experience	612	-
Changes in proportion, and differences between, employer contributions and proportionate share of contributions	-	-
Total	<u>\$ 3,332</u>	<u>\$ 17,497</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 one self-funded risk financing pool administered by the North Carolina League of Municipalities. Through this pool, the Town has workers' compensation coverage up to the statutory limits. The pool is reinsured through commercial companies for single occurrence claims in excess of \$250,000 up to \$5 million.

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

The Town does not carry flood insurance, as the Town is not in an area of the State designated as a flood plain.

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 town clerk are each individually bonded for \$50,000.

4. Long-Term Obligations

a. Installment Purchase

In September 2018, the Town entered into \$49,000 of a direct borrowing installment purchase to finance a vehicle. The finance contract requires principal payments beginning in October 2018 with interest of 3.990%.

The vehicle is pledged as collateral for the debt. \$42,263

b. General Obligation Indebtedness

The Town's general obligation bonds issued 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 full 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 the related agreements. Principal and interest requirements are appropriated when due.

\$1,169,000 of direct placement Sanitary Sewer Bond, Series A,
No. R-1, dated April 7, 1997, bearing interest
at the rate of 4.50 percent.

Payable June 1, 1997 and annually thereafter on June 1 \$745,000

Annual debt service requirements to maturity on all long-term obligations are as follows:

	<u>General Obligation Bonds</u>		<u>Loans Payable</u>		<u>Total Debt Due</u>	
	<u>Principle</u>	<u>Interest</u>	<u>Principle</u>	<u>Interest</u>	<u>Principle</u>	<u>Interest</u>
Governmental Activities:						
2020	\$ -	\$ -	\$ 9,324	\$ 1,516	\$ 9,324	\$ 1,516
2021	-	-	9,703	1,137	9,703	1,137
2022	-	-	10,097	743	10,097	743
2023	-	-	10,507	333	10,507	333
2024	-	-	2,632	17	2,632	17
Total governmental activities	-	-	42,263	3,746	42,263	3,746
Business-type Activities:						
2020	31,500	33,525	-	-	31,500	33,525
2021	33,000	32,108	-	-	33,000	32,108
2022	34,500	30,623	-	-	34,500	30,623
2023	36,000	29,070	-	-	36,000	29,070
2024	37,500	27,450	-	-	37,500	27,450
2025-2029	214,500	110,273	-	-	214,500	110,273
2030-2034	254,000	58,185	-	-	254,000	58,185
2035-2039	104,000	7,020	-	-	104,000	7,020
Thereafter	-	-	-	-	-	-
Total business-type activities	745,000	328,253	-	-	745,000	328,253
Total	\$ 745,000	\$ 328,253	\$ 42,263	\$ 3,746	\$ 787,263	\$ 331,999

At June 30, 2019, the Town of Old Fort had bonds authorized but unissued of \$-0- and a legal debt margin of \$8,555,139.

c. Changes in Long-Term Liabilities

	Balance July 1, 2018	Increase	Decrease	Balance June 30, 2019	Current Portion of Balance
Governmental activities:					
Net pension liability (LGERS)	\$ 72,567	\$30,004	\$ -	\$102,571	\$ -
Total pension liability (LEO)	55,171	5,253	-	60,424	-
Direct borrowing installment purchase	<u>-</u>	<u>49,000</u>	<u>6,737</u>	<u>42,263</u>	<u>9,324</u>
Governmental activity - long-term liabilities	<u>\$127,738</u>	<u>\$84,257</u>	<u>\$ 6,737</u>	<u>\$205,258</u>	<u>\$9,324</u>
Business-type activities:					
Direct placement general obligation bonds	\$775,000	\$ -	\$30,000	\$745,000	\$31,500
Net pension liability	<u>7,524</u>	<u>8,448</u>	<u>-</u>	<u>15,972</u>	<u>-</u>
Business-type activities - long-term liabilities	<u>\$782,524</u>	<u>\$ 8,448</u>	<u>\$30,000</u>	<u>\$760,972</u>	<u>\$31,500</u>

C. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$1,950,315	\$5,855,059
Less: long-term debt	<u>(42,263)</u>	<u>(745,000)</u>
Net investment in capital assets	<u>\$1,908,053</u>	<u>\$5,110,059</u>

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	\$1,943,341
Less:	
Stabilization by State Statute	55,619
Streets-Powell Bill	33,549
Public Safety	53
Appropriated Fund Balance in 2020 Budget	<u>-</u>
Remaining Fund Balance	<u>\$1,854,120</u>

IV. Jointly Governed Organization

The Town, in conjunction with four counties and twenty-four other municipalities, established the Isothermal Planning & Development Commission (the Commission). The participating governments established the Commission to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Commission's governing board. The Town paid membership fees of \$603 to the Commission during the fiscal year ended June 30, 2019.

V. Related Party Transactions

The chief of police is an elected member of the Board of Aldermen. Per G.S. 160A-158, this individual can serve in both the capacity as head of a Town department and on the Board of Aldermen. Serving in both capacities is allowed due to the population of the Town of Old Fort being under the 5,000 population threshold. There are no financial transactions other than reasonable compensation paid in the position of chief of police.

VI. 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 moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.

VII. Significant Effects of Subsequent Events

Management has evaluated subsequent events through October 28, 2019, the date on which the financial statements were available to be issued. During the period from the end of the year, and through this date, no circumstances occurred that require recognition or disclosure in these financial statements.

VIII. Change in Accounting Principle

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*, in the fiscal year ended June 30, 2019. The implementation of the statement required the Town to make changes to note disclosures related to debt.

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Required Supplementary Financial Data

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TOWN OF OLD FORT, NORTH CAROLINA

Town of Old Fort's Proportionate Share of Net Pension Liability (Asset) Required Supplementary Information Last Six Fiscal Years* Local Government Employees' Retirement System

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town of Old Fort's proportion of the net pension liability (asset) (%)	0.00498%	0.00475%	0.00447%	0.00346%	0.00334%	0.00400%
Town of Old Fort's proportion of the net pension liability (asset) (\$)	\$118,143	\$ 72,567	\$ 94,868	\$ 15,528	\$ (19,698)	\$ 48,215
Town of Old Fort's covered payroll	\$320,981	\$265,023	\$242,630	\$206,197	\$228,543	\$220,640
Town of Old Fort's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	36.81%	27.38%	39.10%	7.53%	(8.62)%	21.85%
Plan fiduciary net position as a percentage of the total pension liability**	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

TOWN OF OLD FORT, NORTH CAROLINA**Town of Old Fort's Contributions
Required Supplementary Information
Last Six Fiscal Years
Local Government Employees' Retirement System**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contributions	\$ 30,102	\$ 25,015	\$ 19,975	\$ 15,528	\$ 14,891	\$ 16,357
Contributions in relation to the contractually required contributions	<u>30,102</u>	<u>25,015</u>	<u>19,975</u>	<u>15,528</u>	<u>14,891</u>	<u>16,357</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town of Old Fort's covered-employee payroll	\$373,122	\$320,981	\$265,023	\$242,630	\$206,197	\$228,543
Contributions as a percentage of covered employee payroll	8.07%	7.79%	7.54%	6.40%	7.22%	7.16%

TOWN OF OLD FORT, NORTH CAROLINA**Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
Last Three Fiscal Years**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 55,171	\$ 37,425	\$ 33,903
Service cost	3,583	3,486	3,348
Interest on the total pension liability	1,743	1,445	1,210
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	2,520	9,229	-
Changes of assumptions or other inputs	(2,593)	3,586	(1,036)
Benefit payments	-	-	-
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 60,424</u>	<u>\$ 55,171</u>	<u>\$ 37,425</u>

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

TOWN OF OLD FORT, NORTH CAROLINA

Schedule of Total Pension Liability as a Percentage of Covered Payroll Law Enforcement Officers' Special Separation Allowance Last Three Fiscal Years

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Total pension liability	\$ 60,424	\$ 55,171	\$ 37,425
Covered payroll	126,789	159,040	134,969
Total pension liability as a percentage of covered payroll	47.66%	34.69%	27.73%

Notes to the schedules:

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

TOWN OF OLD FORT, NORTH CAROLINA**Exhibit A-1****Page 1 of 4**

General Fund
Statement of Revenues, Expenditures and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2019
(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2018)

	<u>2019</u>		<u>Variance Positive (Negative)</u>	<u>2018 Actual</u>
	<u>Budget</u>	<u>Actual</u>		
Revenues:				
Ad valorem taxes:				
Current year	\$ 360,000	\$ 366,493	\$ 6,493	\$ 358,704
Prior years	6,000	5,893	(107)	5,020
Penalties and interest	2,000	2,206	206	2,808
Total	<u>368,000</u>	<u>374,592</u>	<u>6,592</u>	<u>366,532</u>
 Other taxes and licenses:				
Privilege licenses	2,000	1,698	(303)	2,480
Local option sales tax	<u>146,400</u>	<u>160,860</u>	<u>14,460</u>	<u>150,857</u>
Total	<u>148,400</u>	<u>162,557</u>	<u>14,157</u>	<u>153,337</u>
 Unrestricted intergovernmental:				
Utilities franchise tax	140,000	150,020	10,020	150,345
Hold harmless	<u>52,000</u>	<u>57,246</u>	<u>5,246</u>	<u>56,641</u>
Total	<u>192,000</u>	<u>207,266</u>	<u>15,266</u>	<u>206,987</u>
 Restricted intergovernmental:				
Powell Bill	30,000	29,376	(624)	29,671
Other federal and state grants	<u>28,050</u>	<u>35,137</u>	<u>7,087</u>	<u>131,636</u>
Total	<u>58,050</u>	<u>64,513</u>	<u>6,463</u>	<u>161,307</u>
 Investment earnings	<u>12,500</u>	<u>15,723</u>	<u>3,223</u>	<u>8,983</u>

cont.

Exhibit A-1, cont.
Page 2 of 4

	2019		Variance Positive (Negative)	2018 Actual
	<u>Budget</u>	<u>Actual</u>		
Revenues (Continued):				
Miscellaneous:				
Rents	\$ 12,600	\$ 13,441	\$ 841	\$ 13,134
Miscellaneous	123,150	5,980	(117,170)	3,480
Officer fees	17,000	17,573	573	17,726
Garbage collections	22,500	23,722	1,222	24,634
Total	<u>175,250</u>	<u>60,717</u>	<u>(114,533)</u>	<u>58,974</u>
Total revenues	<u>954,200</u>	<u>885,368</u>	<u>(68,832)</u>	<u>956,120</u>
Expenditures:				
General government:				
Administration				
Salaries and wages	105,000	103,967	1,033	99,174
Professional fees	12,200	12,160	40	101,870
Payroll taxes	10,100	8,239	1,861	7,622
Group insurance	20,500	20,500	-	17,180
Retirement	6,800	6,784	16	6,206
Postage, phone, bank service charges	4,500	4,186	314	3,552
Utilities	8,500	8,374	126	8,488
Maintenance and repairs	5,000	4,483	517	34,425
Election expense	-	-	-	4,174
Office supplies	6,000	5,726	274	5,033
McDowell County vehicle tax	900	774	126	759
Auditor	12,250	12,240	10	11,600
Computer programmer	8,000	7,927	73	7,088
Depot renovation	8,400	7,390	1,010	8,704
Dues and memberships	3,000	2,965	35	2,354
Insurance and bonds	15,200	15,175	25	8,297
Miscellaneous	9,050	8,701	349	5,969
Christmas decorations/lights	3,000	2,020	980	4,584
Donation/fireworks	13,900	13,878	22	13,000
Other donations	84,450	84,450	-	-
Capital outlay	<u>9,700</u>	<u>9,616</u>	<u>84</u>	<u>-</u>
Total general government	<u>346,450</u>	<u>339,554</u>	<u>6,896</u>	<u>350,078</u>
				cont.

	2019		Variance	2018
	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative)</u>	<u>Actual</u>
Expenditures (Continued):				
Public safety:				
Salaries and wages	\$ 187,000	\$ 180,667	\$ 6,333	\$ 165,618
Payroll taxes	14,700	13,430	1,270	12,188
Group insurance	23,000	22,129	871	17,777
Retirement	13,700	13,425	275	10,401
401 (K) retirement plan	8,100	7,897	203	6,303
Utilities	11,800	10,632	1,168	11,663
Maintenance and repairs	29,000	26,583	2,417	17,127
Automotive supplies	17,000	16,548	452	13,555
Departmental supplies	3,000	2,660	340	2,528
Uniforms	2,000	1,062	938	1,809
Insurance and bonds	14,700	14,675	25	12,256
Drug seizure expense	50	-	50	720
Miscellaneous	-	-	-	103
Capital outlay	<u>40,000</u>	<u>49,000</u>	<u>(9,000)</u>	<u>-</u>
Total public safety	<u>364,050</u>	<u>358,707</u>	<u>5,343</u>	<u>272,047</u>
Transportation:				
Streets and highways				
Salaries and wages	90,300	80,645	9,655	85,519
Payroll taxes	8,100	5,939	2,161	6,766
Group insurance	18,500	17,893	607	20,717
Retirement	6,000	5,822	178	5,815
Utilities	21,500	20,080	1,420	23,325
Maintenance and repairs	17,300	16,249	1,051	12,606
Automotive supplies	9,500	9,111	389	10,260
Departmental supplies	7,500	6,692	808	5,523
Uniforms	3,500	3,211	289	2,200
Insurance and bonds	15,600	15,597	3	13,500
Miscellaneous	200	-	200	170
Capital outlay	<u>9,200</u>	<u>9,200</u>	<u>-</u>	<u>-</u>
	<u>207,200</u>	<u>190,440</u>	<u>16,760</u>	<u>186,403</u>

cont.

	2019			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>	<u>2018 Actual</u>
Expenditures (Continued):				
Powell Bill assistance				
Resurfacing/patching streets/sidewalks	\$ 27,000	\$ -	\$ 27,000	\$ 39,990
Engineer or architect fees	3,000	-	3,000	-
Miscellaneous	-	-	-	512
	<u>30,000</u>	<u>-</u>	<u>30,000</u>	<u>40,502</u>
Total transportation	<u>237,200</u>	<u>190,440</u>	<u>46,760</u>	<u>226,905</u>
Environmental protection:				
Maintenance and repairs	2,300	1,422	878	1,321
County landfill tipping fee	10,700	10,617	83	10,399
Automotive supplies	8,500	6,318	2,182	6,703
Departmental supplies	6,000	5,729	271	1,892
Insurance and bonds	<u>10,800</u>	<u>10,775</u>	<u>25</u>	<u>9,100</u>
Total environmental protection	<u>38,300</u>	<u>34,861</u>	<u>3,439</u>	<u>29,415</u>
Debt service:				
Public safety				
Principal retirement	6,808	6,738	70	16,341
Interest	<u>1,392</u>	<u>1,392</u>	<u>-</u>	<u>323</u>
Total debt service	<u>8,200</u>	<u>8,130</u>	<u>70</u>	<u>16,664</u>
Total expenditures	<u>994,200</u>	<u>931,693</u>	<u>62,507</u>	<u>895,109</u>
Revenues over (under) expenditures	(40,000)	(46,325)	(6,325)	61,011
Other Financing Sources (Uses):				
Proceeds of borrowing	40,000	49,000	9,000	-
Sale of capital assets	<u>-</u>	<u>37,500</u>	<u>37,500</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>40,175</u>	<u>\$ 40,175</u>	<u>61,011</u>
Fund balance, beginning		<u>1,903,166</u>		<u>1,842,154</u>
Fund balance, ending		<u>\$ 1,943,341</u>		<u>\$ 1,903,166</u>

TOWN OF OLD FORT, NORTH CAROLINA**Exhibit B-1****Page 1 of 2****Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)****For the Fiscal Year Ended June 30, 2019****(With Comparative Actual Amounts for the Fiscal Year Ended June 30, 2018)**

	2019		Variance	2018
	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative)</u>	<u>Actual</u>
Revenues:				
Operating revenues:				
Charge for services	\$ 413,800	\$ 429,825	\$ 16,025	\$ 396,338
Other	116,000	119,642	3,642	124,371
Total operating revenues	<u>529,800</u>	<u>549,466</u>	<u>19,666</u>	<u>520,709</u>
Nonoperating revenues:				
Grant revenue	213,082	213,082	-	86,918
Miscellaneous	5,200	8,032	2,832	6,283
Investment earnings	-	3,742	3,742	2,058
Total nonoperating revenues	<u>218,282</u>	<u>224,856</u>	<u>6,574</u>	<u>95,260</u>
	-	-	-	-
Budgetary appropriations:				
Appropriated fund balance	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total revenues	<u>748,082</u>	<u>774,322</u>	<u>26,240</u>	<u>615,969</u>
Expenditures:				
Operating expenses:				
Water treatment and distribution:				
Salaries and benefits	90,500	87,287	3,213	61,011
Utilities	41,500	39,857	1,643	41,282
Supplies	64,000	70,204	(6,204)	80,925
Maintenance and repairs	171,673	170,189	1,484	156,603
Other operating expenses	35,970	28,154	7,816	26,380
Capital outlay	28,030	28,000	30	-
Increase (decrease) in inventory	-	(11,105)	11,105	(9,277)
	<u>431,673</u>	<u>412,585</u>	<u>19,088</u>	<u>356,925</u>

cont.

	2019		Variance	2018
	<u>Budget</u>	<u>Actual</u>	<u>Positive (Negative)</u>	<u>Actual</u>
Expenditures (continued):				
Waste collection and treatment:				
Contracted services	\$ 600	\$ 555	\$ 45	\$ 1,200
Utilities	40,900	33,774	7,126	32,449
Supplies	2,500	2,311	189	-
Maintenance and repairs	147,909	144,079	3,830	77,643
Other operating expenses	42,960	31,524	11,436	35,106
Capital outlay	16,665	14,414	2,251	-
Debt service:				
Principal retirement	29,000	30,000	(1,000)	29,000
Interest	35,875	34,764	1,111	36,073
	<u>316,409</u>	<u>291,421</u>	<u>24,988</u>	<u>211,471</u>
Total expenditures	<u>748,082</u>	<u>704,005</u>	<u>44,077</u>	<u>568,396</u>
Revenues over (under) expenditures	-	70,317	70,317	47,572
Other Financing Sources (Uses):	-			
Transfer from General Fund	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures and other uses	<u>\$ -</u>	70,317	<u>\$ 70,317</u>	47,572
Reconciliation of Budgetary Basis (Modified Accrual to Full Accrual):				
Cost of expenditures which were capitalized		42,414		-
Increase (decrease) in inventory		(11,105)		(9,277)
Increase in deferred outflows of resources-pensions		7,251		6,335
Increase in net pension liability		(8,448)		(7,524)
Decrease in deferred inflows of resources-pensions		228		(311)
Payment of debt principal		30,000		29,000
Depreciation expense		<u>(205,460)</u>		<u>(205,732)</u>
Change in net position		<u>\$ (74,804)</u>		<u>\$ (139,937)</u>

TOWN OF OLD FORT, NORTH CAROLINA**Exhibit C-1****Schedule of Ad Valorem Taxes Receivable
June 30, 2019**

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2018</u>	<u>Additions and Adjustments</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2019</u>
2018 - 2019	\$ -	\$ 373,696	\$ 368,210	\$ 5,486
2017 - 2018	3,320	-	1,564	1,756
2016 - 2017	2,521	-	895	1,626
2015 - 2016	1,125	--	551	574
2014 - 2015	973	-	516	457
2013 - 2014	911	-	311	600
2012 - 2013	1,359	-	371	988
2011 - 2012	2,804	-	510	2,294
2010 - 2011	1,898	-	225	1,673
2009 - 2010	2,095	-	52	2,043
2008 - 2009	1,658	-	1,658	-
	<u>\$ 18,663</u>	<u>\$ 373,696</u>	<u>\$ 374,863</u>	<u>\$ 17,497</u>

Reconciliation to Revenues

Taxes - Ad Valorem, General Fund	\$ 374,592
Amount written off for fiscal 2008 - 2009	1,658
Less interest collected	(2,206)
Miscellaneous adjustments	<u>819</u>
Total collections and credits	<u>\$ 374,863</u>

TOWN OF OLD FORT, NORTH CAROLINA**Exhibit C-2****Analysis of Current Tax Levy
For the Year Ended June 30, 2019**

	<u>City - Wide</u>			<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>		
Original levy:					
Property taxes at current year's rate	\$ 109,936,875	0.32	\$ 351,798	\$ 351,798	\$ -
Registered motor vehicles taxed at current year's rate	<u>5,205,153</u>	0.32	<u>16,656</u>	<u>-</u>	<u>16,656</u>
Total	<u>115,142,028</u>		<u>368,454</u>	<u>351,798</u>	<u>16,656</u>
Discoveries	2,174,478	0.32	6,958	6,958	-
Releases-property	<u>(536,484)</u>	0.32	<u>(1,717)</u>	<u>(1,717)</u>	<u>-</u>
Total	<u>1,637,994</u>		<u>5,242</u>	<u>5,242</u>	<u>-</u>
Total property valuation	<u>\$ 116,780,022</u>				
Net levy			373,696	357,040	16,656
Unpaid (by taxpayers) taxes at June 30, 2019			<u>(5,486)</u>	<u>(5,486)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 368,210</u>	<u>\$ 351,554</u>	<u>\$ 16,656</u>
Current levy collection percentage			<u>98.53%</u>	<u>98.46%</u>	<u>100.00%</u>

Compliance Section

**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**

Schedule of Findings and Responses

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Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

121 N. Sterling Street
Morganton, North Carolina 28655
Phone: (828) 433-1226
Fax: (828) 433-1230

**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
Members of the Board of Aldermen
Town of Old Fort, 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, each major fund, and the aggregate remaining fund information of the Town of Old Fort, 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 of Old Fort, North Carolina's basic financial statements and have issued our report thereon dated October 28, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Old Fort, North Carolina'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 Old Fort, North Carolina's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town of Old Fort, North Carolina's internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies.
See 2019-001 and 2019-002.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Old Fort, North Carolina'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.

Town of Old Fort, North Carolina's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance, and the 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.

Lowmire & Co., L.L.P.

Morganton, North Carolina
October 28, 2019

TOWN OF OLD FORT, NORTH CAROLINA

**Schedule of Findings and Responses
For the Year Ended June 30, 2019**

1. Financial Statement Findings:

Significant Deficiencies:

Finding: 2019-001:

Condition: Lowdermilk Church & Co., L.L.P. (the independent auditors) prepared the draft financial statements for the Town. As with most smaller organizations, this becomes necessary due to the cost benefit of either out-sourcing or hiring personnel with the expertise to prepare financial statements in conformity with generally accepted accounting principles.

Effect: The financial statements may not be prepared in accordance with generally accepted accounting principles (GAAP).

Response: Management concurs with the finding. Management will exercise due care in reviewing the financial statements drafted by the external auditor, as the Town is responsible for the accuracy of the audited financial statements.

Finding: 2019-002:

Condition: The size of the Town's accounting and administrative staff precludes certain internal controls that would be preferred if the office staff were large enough to provide optimum segregation of duties. The Mayor and the Board of Aldermen should be engaged in the ongoing review of the financial affairs of the Town to provide oversight.

Effect: Material misstatements could occur, whether due to fraud or error, and not be detected on a timely basis.

Response: Duties will be segregated as much as possible.