

**REVIEWED**

***By LGC0077 at 2:52 pm, Aug 24, 2020***

FINANCIAL STATEMENTS  
TOWN OF PIKEVILLE  
PIKEVILLE, NORTH CAROLINA  
JUNE 30, 2019

BOARD OF COMMISSIONERS

Charles Hooks, Mayor

James Gardner, commissioner

Stephen West, commissioner

Russell Carpenter, commissioner

Robert Hooks, commissioner

Michael Herring, commissioner

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## FINANCIAL SECTION



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## Independent Auditors' Report

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

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

### Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pikeville, North Carolina as of June 30, 2019, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Other Matters

#### Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the

Management's Discussion and Analysis on pages 8 through 19 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 51 and 52 ,respectively and the Law Enforcement Officer's Special Separation Allowance Schedule of Changes in Total Pension Liability and Schedule of Total Pension Liability as a Percentage of Covered Payroll on pages 53 and 54 respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Pikeville, North Carolina's basic financial statements. The budgetary schedules, other schedules, and Schedule of Expenditures of Federal and State Awards are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

#### ***Other Reporting Required by Government Auditing Standards***

In accordance with Government Auditing Standards, we have also issued our report dated August 3, 2020, on our consideration of the Town of Pikeville, 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 the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Town of Pikeville, North Carolina's internal control over financial reporting and compliance.

*Petway Mills & Pearson, PA*

PETWAY MILLS & PEARSON, PA  
Certified Public Accountants  
Zebulon, North Carolina

August 3, 2020

## **Management's Discussion and Analysis**

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

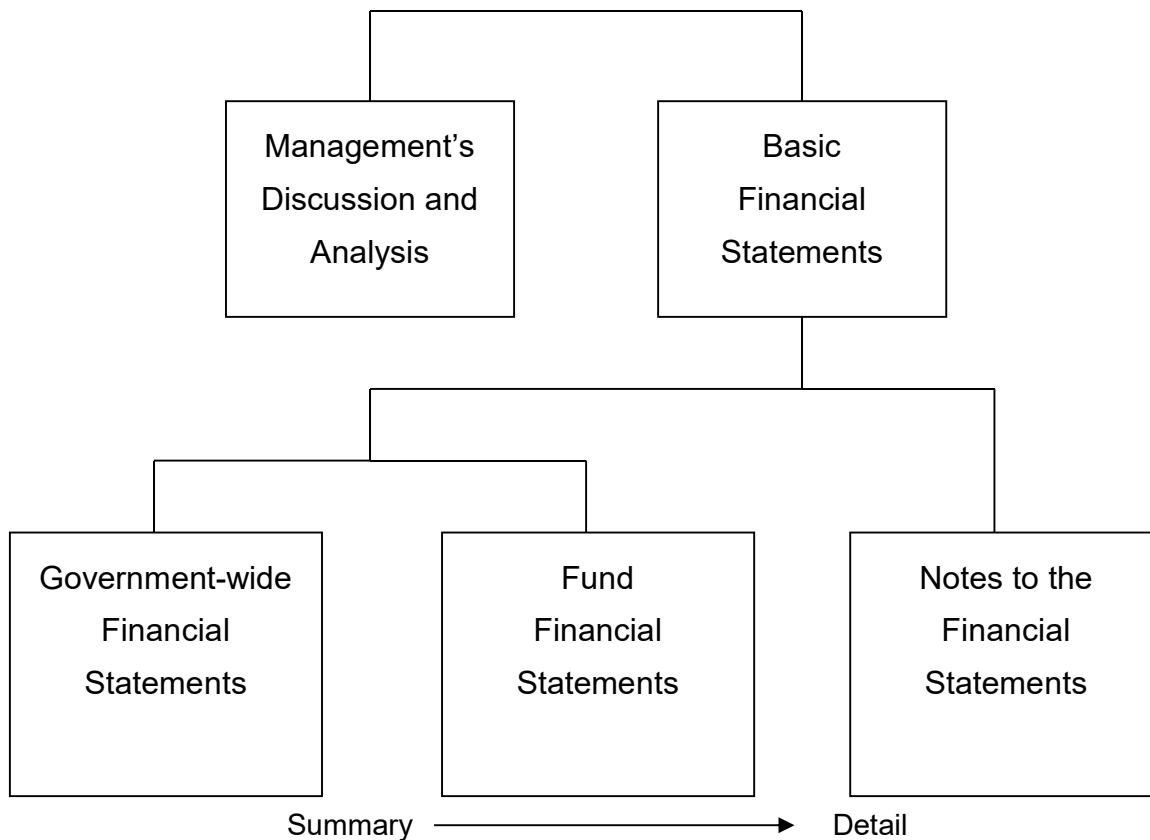
- The assets and deferred outflows of resources of the Town of Pikeville exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$7,319,135 (*net position*).
- The government's total net position increased by \$20,472, primarily due to decrease in pension liabilities.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$382,827, a decrease of \$43,259 in comparison with the prior year. Approximately 90.32 percent of this total amount, or \$345,797, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$37,030 or 4.835 percent of total general fund expenditures for the fiscal year.
- The Town's total debt decreased by \$31,363 (2.18 %) during the current fiscal year due to repayments.

### **Overview of the Financial Statements**

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

## 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 9) 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 position is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, 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 and electric services offered by the Town.

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 Pikeville, 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 Pikeville 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* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Pikeville 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 of Pikeville, the management of the Town of Pikeville, 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 Pikeville has one kind of 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 Pikeville uses an enterprise fund to account for its water and sewer activity and for its electric operations. 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 30 of this report.

**Other Information** – In addition to the basic financial statement and accompanying notes, this report includes certain required supplementary information concerning the Town of Pikeville's progress in funding its obligations to provide pension benefits to its employees. Required supplementary information can be found beginning on page 50.

**Interdependence with Other Entities** – The Town depends on financial resources flowing from, or associated with, both 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.

## Government-Wide Financial Analysis

### Town of Pikeville's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 437,906	\$ 459,915	\$ 2,012,808	\$ 1,889,631	\$ 2,450,714	\$ 2,349,546
Capital assets	354,694	373,142	6,353,083	6,183,306	6,707,777	6,556,448
Deferred outflows of resources	91,932	61,037	38,168	36,422	130,100	97,459
Total assets and deferred outflows of resources	884,532	894,094	8,404,059	8,109,359	9,288,591	9,003,453
Long-term liabilities outstanding	188,326	133,837	1,351,417	1,427,763	1,539,743	1,561,600
Other liabilities	37,181	16,545	367,815	119,706	404,996	136,251
Deferred inflows of resources	20,459	4,427	4,258	2,514	24,717	6,941
Total liabilities and deferred inflows of resources	245,966	154,809	1,723,490	1,549,983	1,969,456	1,704,792
Net position:						
Net investment in capital assets	354,694	373,142	5,051,939	5,683,131	5,406,633	6,056,273
Restricted	345,797	309,492	232,401	-	578,198	309,492
Unrestricted	(61,925)	56,653	1,396,229	876,245	1,334,304	932,898
Total net position	\$ 638,566	\$ 739,287	\$ 6,680,569	\$ 6,559,376	\$ 7,319,135	\$ 7,298,663

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 Pikeville exceeded liabilities and deferred inflows by \$7,319,135 as of June 30, 2019. The Town of Pikeville's net position increased by \$20,472 for the fiscal year ended June 30, 2019. However, the largest portion (73.87%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Pikeville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Pikeville's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Pikeville's net position, \$578,198, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,334,304 is unrestricted.

## Town of Pikeville Changes in Net Position

**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenue:						
Program revenues:						
Charges for services	\$ 92,435	\$ 106,310	\$ 1,601,281	\$ 1,788,785	\$ 1,693,716	\$ 1,895,095
Operating grants and contributions	64,073	43,292	-	-	64,073	43,292
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	311,498	318,860	-	-	311,498	318,860
Other taxes	242,320	226,693	-	-	242,320	226,693
Grants and contributions not restricted to specific programs	-	-	353,648	-	353,648	-
Other	12,831	193,577	104,494	1,949	117,325	195,526
Total revenue	723,157	888,732	2,059,423	1,790,734	2,782,580	2,679,466
Expenses:						
General government	297,589	352,772	-	-	297,589	352,772
Public safety	279,374	280,671	-	-	279,374	280,671
Transportation	81,105	86,291	-	-	81,105	86,291
Economic and physical development	-	-	-	-	-	-
Environmental protection	79,594	65,821	-	-	79,594	65,821
Cultural and recreational	86,216	56,839	-	-	86,216	56,839
Interest on long-term debt	-	-	-	-	-	-
Water and sewer	-	-	779,195	647,505	779,195	647,505
Electric	-	-	1,159,035	919,659	1,159,035	919,659
Total expenses	823,878	842,394	1,938,230	1,567,164	2,762,108	2,409,558
Increase/(decrease) in net position before transfers	(100,721)	46,338	121,193	223,570	20,472	269,908
Transfers	-	-	-	-	-	-
Increase/(decrease) in net position	(100,721)	46,338	121,193	223,570	20,472	269,908
Net position, July 1	739,287	692,949	6,559,376	6,335,806	7,298,663	7,028,755
Net position, beginning, restated	-	-	-	-	-	-
Net position, June 30	\$ 638,566	\$ 739,287	\$ 6,680,569	\$ 6,559,376	\$ 7,319,135	\$ 7,298,663

**Governmental activities.** Governmental activities decreased the Town's net position by \$100,721, thereby accounting for 83.12% of the total change in net position of the Town of Pikeville. Though a recession affected the Town, the increase in net position was the result of a concerted effort to control cost and manage expenditures to minimize the impact of the recession on its citizens. Town management reduced non-essential programs to a minimum and implemented cost saving strategies across Town departments. Certain nonrecurring expenses were either postponed or renegotiated in an attempt to maintain a healthy net position. Increased efforts to maximize tax collections also contributed to the favorable net position. Though many of the Town's residents were hit hard by the recession, tax revenue did not appreciably decline in the current year. Town management acknowledges that 2019 was a less successful year and plans on improving upon these approaches as a long-term strategy to realize continued fiscal health.

**Business-type activities:** Business-type activities increased the Town of Pikeville's net position by \$121,193.

## Financial Analysis of the Town's Funds

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

**Governmental Funds.** The focus of the Town of Pikeville'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 Pikeville's financing requirements.

The general fund is the chief operating fund of the Town of Pikeville. At the end of the current fiscal year, Town of Pikeville's fund balance available in the General Fund was \$37,030, while total fund balance reached \$382.827. The Governing Body of Town of Pikeville has determined that the Town should maintain an available fund balance of 10% of general fund expenditures in case of unforeseen needs or opportunities, in addition to meeting the cash flow needs of the Town. The Town currently has an available fund balance of 4.83% of general fund expenditures, while total fund balance represents 49.99% of the same amount.

**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. There were several reasons the Town updated its budget throughout the year.

**Proprietary Funds.** The Town'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 \$(63,786) and those for the Electric Fund amounted to \$1,460,015. The total change in net position for both funds was \$193,284 and \$(72,091) respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town's business-type activities.

## Capital Asset and Debt Administration

**Capital assets.** The Town of Pikeville's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$354,694 (net of accumulated depreciation). These assets include buildings, improvements, land, machinery and equipment, and vehicles.

There were no major capital asset transactions during the year.

### Town of Pikeville's Capital Assets (net of depreciation)

**Figure 4**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 139,821	\$ 140,160	\$ 1,067,342	\$ 1,059,777	\$ 1,207,163	\$ 1,199,937
Buildings and improvements	135,318	145,366	609	927	135,927	146,293
Substations, lines, and related equipment	-	-	4,871,767	5,095,050	4,871,767	5,095,050
Streets and sidewalks	3,830	4,053	-	-	3,830	4,053
Machine and equipment	18,994	16,324	-	-	18,994	16,324
Vehicles and motorized equipment	56,731	61,201	41,978	19,987	98,709	81,188
Construction in progress	-	-	371,387.00	-	371,387	-
Total	\$ 354,694	\$ 367,104	\$ 6,353,083	\$ 6,175,741	\$ 6,707,777	\$ 6,542,845

Additional information on the Town of Pikeville's capital assets can be found in note III.A.2 of the Basic Financial Statements.

## Long Term Debt

As of June 30, 2019 the Town had total debt outstanding of \$1,301,144. Of this, \$1,055,000 is debt backed by the full faith and credit of the Town. The remainder of the Town's debt represents bonds secured by specific revenue sources (e.g. revenue bonds).

### Town of Pikeville's Outstanding Debt

**Figure 5**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Installment debt	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
General obligation bonds	-	-	175,000	200,000	175,000	200,000
Note Payable	-	-	880,000	880,000	880,000	880,000
Revenue bonds	-	-	246,144	300,175	246,144	300,175
Total OPEB Liability	-	-	-	-	-	-
Net Pension Liability (LGERS)	98,266	65,704	34,957	33,884	133,223	99,588
Total Pension Liability (LEO)	76,336	64,990	-	-	76,336	64,990
Compensated Absences	3,143	3,143	13,316	10,629	16,459	137,772
Total	\$ 177,745	\$ 133,837	\$ 1,349,417	\$ 1,424,688	\$ 1,301,144	\$ 1,380,175

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 of the Town of Pikeville is \$2,566,353.

Additional information regarding the Town of Pikeville's long-term debt can be found in Note III.4.A 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 of Pikeville.

Low unemployment. The Town of Pikeville's unemployment rate of 3.9% is well below the State average of 4.2%

## **Budget Highlights for the Fiscal Year Ending June 30, 2020**

### **Governmental Activities:**

Property Tax rates will remain at .69 per \$100 valuation.

### **Business-type Activities:**

The Water & Sewer rates will increase slightly, primarily to cover increased costs of operations.

### **Requests for Information**

This report is designed to provide an overview of the Town of Pikeville finances for those with an interest in the area. Questions concerning any of the information found in this report or requests for additional information should be directed to Mr. Michael Hunt, Administrator, Town of Pikeville, PO Box Pikeville, NC 27863.

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**Town of Pikeville**  
**Statement of Net Position**  
**June 30, 2019**

	Primary Government		
	Governmental	Business-type	Total
	Activities	Activities	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 74,211	\$ 1,565,099	\$ 1,639,310
Restricted cash	248,226	300,069	548,295
Taxes receivables (net)	17,898	-	17,898
Accounts receivable (net) - trade	7,379	147,640	155,019
Due from other governments	90,192	-	90,192
Total current assets	437,906	2,012,808	2,450,714
Non-current assets:			
Capital assets:			
Land, non-depreciable improvements, and construction in progress	139,821	1,438,729	1,578,550
Other capital assets, net of depreciation	214,873	4,914,354	5,129,227
Total capital assets	354,694	6,353,083	6,707,777
Total assets	792,600	8,365,891	9,158,491
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Contributions to pension plan in current fiscal year	34,360	-	34,360
Contributions to pension plan in current fiscal year - LEO	6,431	-	6,431
Pension deferrals	51,141	38,168	89,309
Total deferred outflows of resources	91,932	38,168	130,100
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable - trade	-	296,420	296,420
Accrued interest payable	-	49,602	49,602
Other accrued liabilities	37,181	6,593	43,774
Customer deposits	-	15,200	15,200
Long-term liabilities:			
Net pension liability	98,266	36,957	135,223
LEO net pension liability	76,336	-	76,336
Due within one year	13,724	975,959	989,683
Due in more than one year	-	338,501	338,501
Total liabilities	225,507	1,719,232	1,944,739
<b>DEFERRED INFLOWS OF RESOURCES</b>			
LEO pension deferrals	17,478	-	17,478
Pension deferrals	2,981	4,258	7,239
Total deferred inflows of resources	20,459	4,258	24,717
<b>NET POSITION</b>			
Net investment in capital assets	354,694	5,051,939	5,406,633
Restricted for:			
Streets	118,726	-	118,726
Cemetery	129,500	-	129,500
Stabilization by State Statue	97,571	-	97,571
Capital project	-	232,401	232,401
Unrestricted	(61,925)	1,396,229	1,334,304
Total net position	\$ 638,566	\$ 6,680,569	\$ 7,319,135

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

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

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total
					Governmental Activities	Business-type Activities	
<b>Primary government:</b>							
Governmental Activities:							
General government	\$ 297,589	\$ 2,216	\$ -	\$ -	\$ (295,373)	\$ -	\$ (295,373)
Public safety	279,374	-	42,415	-	(236,959)	-	(236,959)
Transportation	81,105	-	21,658	-	(59,447)	-	(59,447)
Environmental protection	79,594	74,319	-	-	(5,275)	-	(5,275)
Cultural and recreation	86,216	15,900	-	-	(70,316)	-	(70,316)
Interest on long-term debt	-	-	-	-	-	-	-
Total governmental activities	823,878	92,435	64,073	-	(667,370)	-	(667,370)
Business-type activities:							
Water and sewer	779,195	540,979	353,648	-	-	115,432	115,432
Electric	1,159,035	1,060,302	-	-	-	(98,733)	(98,733)
Total business-type activities	1,938,230	1,601,281	353,648	-	-	16,699	16,699
Total primary government	\$ 2,762,108	\$ 1,693,716	\$ 417,721	\$ -	(667,370)	16,699	(650,671)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					311,498	-	311,498
Other taxes					242,320	-	242,320
Unrestricted investment earnings					2,134	82	2,216
Insurance settlement					-	8,882	8,882
Miscellaneous					10,697	95,530	106,227
Total general revenues					566,649	104,494	671,143
Change in net position					(100,721)	121,193	20,472
Net position, beginning					739,287	6,559,376	7,298,663
Net position, ending					\$ 638,566	\$ 6,680,569	\$ 7,319,135

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

Exhibit 3

**Town of Pikeville  
Balance Sheet  
Governmental Funds  
June 30, 2019**

	<b>Major Funds</b>	<b>Total Governmental</b>
	<b>General</b>	<b>Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 74,211	\$ 74,211
Restricted cash	248,226	248,226
Receivables, net:		
Taxes	17,898	17,898
Accounts	7,379	7,379
Due from other governments	90,192	90,192
Total assets	<u>437,906</u>	<u>437,906</u>
<b>LIABILITIES</b>		
Accounts payable - trade	-	-
Cash overdraft	-	-
Other accrued liabilities	37,181	37,181
Total liabilities	<u>37,181</u>	<u>37,181</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property taxes receivable	17,898	17,898
Total deferred inflows of resources	<u>17,898</u>	<u>17,898</u>
Fund balances:		
Restricted:		
Stabilization by State Statute	97,571	97,571
Cemetery	129,500	129,500
Streets	118,726	118,726
Unassigned	37,030	37,030
Total fund balances	<u>382,827</u>	<u>382,827</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 437,906</u>	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	354,694
Net pension liability	(174,602)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position	40,791
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	(13,724)
Pension related deferrals	30,682
Some liabilities, including bonds payable and accrued interest, are not due and payable in the current period and therefore are not reported in the funds.	17,898
Net position of governmental activities	<u>\$ 638,566</u>

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

**Exhibit 4**

**Town of Pikeville  
Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2019**

	<b>Major Funds</b>	<b>Total Governmental</b>
	<b>General</b>	<b>Funds</b>
<b>REVENUES</b>		
Ad valorem taxes	\$ 310,886	\$ 310,886
Unrestricted intergovernmental	241,831	241,831
Restricted intergovernmental	64,561	64,561
Permits and fees	1,565	1,565
Sales and services	90,871	90,871
Investment earnings	2,134	2,134
Miscellaneous	10,695	10,695
Total revenues	<u>722,543</u>	<u>722,543</u>
<b>EXPENDITURES</b>		
Current:		
General government	270,054	270,054
Public safety	289,992	289,992
Transportation	81,105	81,105
Environmental protection	79,594	79,594
Cultural and recreation	40,122	40,122
Debt service:		
Principal	-	-
Interest and other charges	-	-
Capital outlay	4,937	4,937
Total expenditures	<u>765,804</u>	<u>765,804</u>
Excess of revenues over (under) expenditures	<u>(43,261)</u>	<u>(43,261)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Proceeds from long-term debt	-	-
Proceeds from disposition of fixed assets	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>
Net change in fund balance	(43,261)	(43,261)
Fund balances, beginning	426,088	426,088
Fund balances, ending	<u>\$ 382,827</u>	<u>\$ 382,827</u>

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

**Exhibit 5**

**Town of Pikeville**  
**Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**to the Statement of Activities**  
**Governmental Funds**  
**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	\$ (43,261)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(18,448)
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Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	40,791
--	--------

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	612

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.	-
--	---

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	
Compensated absences	(10,581)
Pension expense	(69,836)
Rounding	2

Total changes in net position of governmental activities	<u><u>\$ (100,721)</u></u>
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The notes to the financial statements are an integral part of this statement.

**Exhibit 6**

**Town of Pikeville  
General Fund**

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

	<b>General Fund</b>			
	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 307,500	\$ 312,500	\$ 310,886	\$ (1,614)
Unrestricted intergovernmental	206,700	214,650	241,831	27,181
Restricted intergovernmental	21,400	28,700	64,561	35,861
Permits and fees	2,000	2,000	1,565	(435)
Sales and services	89,600	88,825	90,871	2,046
Investment earnings	300	300	2,134	1,834
Miscellaneous	-	3,400	10,695	7,295
Total revenues	627,500	650,375	722,543	72,168
Expenditures:				
Current:				
General government	135,400	172,750	270,054	(97,304)
Public safety	321,000	303,450	289,992	13,458
Transportation	96,550	94,100	81,105	12,995
Environmental protection	64,050	70,200	79,594	(9,394)
Cultural and recreation	31,075	41,700	40,122	1,578
Debt service:				
Principal retirement	-	-	-	-
Interest and other charges	-	-	-	-
Capital Outlay	-	-	4,937	(4,937)
Total expenditures	648,075	682,200	765,804	(83,604)
Revenues over (under) expenditures	(20,575)	(31,825)	(43,261)	(11,436)
Other financing sources (uses):				
Proceeds from installment purchases	-	-	-	-
Appropriated fund balance	20,575	31,825	-	31,825
Total other financing sources (uses)	20,575	31,825	-	31,825
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	(43,261)	\$ 20,389
Fund balances, beginning			426,088	
Fund balances, ending			\$ 382,827	

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

**Exhibit 7**

**Town of Pikeville  
Statement of Net Position  
Proprietary Funds  
June 30, 2019**

	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 1,362,878	\$ 202,221	\$ 1,565,099
Restricted cash	67,668	232,401	300,069
Accounts receivable - trade (net) - billed	88,281	59,359	147,640
Total current assets	1,518,827	493,981	2,012,808
Non-current assets			
Capital assets:			
Land and other non-depreciable assets	-	1,438,729	1,438,729
Other capital assets, net of depreciation	462,673	4,451,681	4,914,354
Capital assets (net)	462,673	5,890,410	6,353,083
Total non-current assets	462,673	5,890,410	6,353,083
Total assets	1,981,500	6,384,391	8,365,891
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Pension deferrals	13,667	24,501	38,168
Total deferred outflows of resources	13,667	24,501	38,168
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable - trade	26,491	269,929	296,420
Accrued interest payable	9,257	40,345	49,602
Other accrued liabilities	5,142	1,451	6,593
Customer deposits	15,200	-	15,200
Compensated absences - current	1,622	11,694	13,316
General obligation bonds payable - current	-	880,000	880,000
Revenue bond payable - current	57,643	25,000	82,643
Total current liabilities	115,355	1,228,419	1,343,774
Noncurrent liabilities:			
Other noncurrent liabilities:			
Net pension liabilities	13,345	23,612	36,957
Revenue bond payable - noncurrent	188,501	150,000	338,501
Total noncurrent liabilities	201,846	173,612	375,458
Total liabilities	317,201	1,402,031	1,719,232
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Pension deferrals	1,422	2,836	4,258
<b>NET POSITION</b>			
Net investment in capital assets	216,529	4,835,410	5,051,939
Unrestricted	1,460,015	(63,786)	1,396,229
Total net position	\$ 1,676,544	\$ 5,004,025	\$ 6,680,569

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

Exhibit 8

**Town of Pikeville**  
**Statement of Revenues, Expenses, and Changes in Fund Net Position**  
**Proprietary Funds**  
**For the Year Ended June 30, 2019**

	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,060,302	\$ 540,979	\$ 1,601,281
Other operating revenues	26,608	77,804	104,412
<b>Total operating revenues</b>	<b>1,086,910</b>	<b>618,783</b>	<b>1,705,693</b>
<b>OPERATING EXPENSES</b>			
Administration	116,217	88,820	205,037
Electric operations	149,549	-	149,549
Electric power purchases	847,129	-	847,129
Water treatment and distribution	-	190,282	190,282
Waste collection and treatment	-	262,125	262,125
Depreciation	36,259	193,830	230,089
<b>Total operating expenses</b>	<b>1,149,154</b>	<b>735,057</b>	<b>1,884,211</b>
<b>Operating income (loss)</b>	<b>(62,244)</b>	<b>(116,274)</b>	<b>(178,518)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	34	48	82
Interest and other charges	(9,881)	(44,138)	(54,019)
<b>Total nonoperating revenue (expenses)</b>	<b>(9,847)</b>	<b>(44,090)</b>	<b>(53,937)</b>
<b>Income (loss) before contributions and transfers</b>	<b>(72,091)</b>	<b>(160,364)</b>	<b>(232,455)</b>
Contributed capital	-	353,648	353,648
<b>Total income (loss) after contributions and transfers</b>	<b>(72,091)</b>	<b>193,284</b>	<b>121,193</b>
<b>Change in net position</b>	<b>(72,091)</b>	<b>193,284</b>	<b>121,193</b>
<b>Total net position, beginning</b>	<b>1,748,635</b>	<b>4,810,741</b>	<b>6,559,376</b>
<b>Total net position, ending</b>	<b>\$ 1,676,544</b>	<b>\$ 5,004,025</b>	<b>\$ 6,680,569</b>

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

**Town of Pikeville**  
**Statement of Cash Flows**  
**Proprietary Funds**  
**For the Fiscal Year Ended June 30, 2019**

	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 1,128,358	\$ 597,619	\$ 1,725,977
Cash paid for goods and services	(1,029,687)	(99,948)	(1,129,635)
Cash paid to or on behalf of employees for services	(135,250)	(157,796)	(293,046)
Net customer deposits	4,933	42,681	47,614
Other operating revenues	21,904	75,804	97,708
Net cash provided (used) by operating activities	(9,742)	458,360	448,618
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Interfund activity	808,089	-	808,089
Net cash (used) provided by noncapital financing activities	808,089	-	808,089
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(4,937)	(394,929)	(399,866)
Principal payments on loans	(54,031)	(25,000)	(79,031)
Contributed capital	-	353,648	353,648
Net cash (used) by capital and related financing activities	(58,968)	(66,281)	(125,249)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends	34	48	82
Net cash provided by investing activities	34	48	82
Net increase (decrease) in cash and cash equivalents	739,413	392,127	1,131,540
Balances, beginning	691,133	42,495	733,628
Balances, ending	\$ 1,430,546	\$ 434,622	\$ 1,865,168

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

**Town of Pikeville  
Statement of Cash Flows  
Proprietary Funds  
For the Fiscal Year Ended June 30, 2019**

	<b>Electric Fund</b>	<b>Water and Sewer Fund</b>	<b>Total</b>
Reconciliation of operating income to net cash provided (used) by operating activities			
Operating income (loss)	\$ (62,244)	\$ (116,274)	\$ (178,518)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	36,259	193,830	230,089
Pension Expense	-	-	-
Changes in assets, deferred outflows of resources, and liabilities:			
(Increase) decrease in accounts receivable	63,352	54,640	117,992
(Increase) decrease in inventory	4,493	10,395	14,888
Increase (decrease) in accounts payable - trade	16,868	257,892	274,760
Increase (decrease) in other accrued liabilities	(61,684)	25,775	(35,909)
Increase (decrease) in customer deposits	(627)	23,256	22,629
Increase (decrease) in compensated absences	(6,159)	8,846	2,687
Total adjustments	52,502	574,634	627,136
Net cash provided by operating activities	\$ (9,742)	\$ 458,360	\$ 448,618

**Noncash investing, capital, and financing activities:**

None.

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

**Town of Pikeville, 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 Pikeville (the Town) 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 Pikeville is a municipal corporation that is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the financial activity of the Town.

**B. Basis of Presentation**

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

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees 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 and investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental fund:

**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 reports the following major enterprise funds:

**Electric Fund.** This fund is used to account for the Town's electric operations.

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

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

**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 included 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 funds 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 enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Wayne County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus,

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

when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then 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 Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances (when they exist) are adopted for the Grant Projects, Special Revenue Funds, and Projects Funds, which are consolidated with the 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. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

**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- Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price.

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

**2. Cash and Cash Equivalents**

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

**3. Restricted Assets**

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill cash of \$118,726 has been restricted as required by the North Carolina Department of Transportation. Cash held for the operation of the Cemetery is restricted. \$232,401 of Water and Sewer Fund cash is restricted to sewer capital projects.

**Town of Pikeville, North Carolina**  
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**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 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2011. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

**5. Allowances for Doubtful Accounts**

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

**6. Prepaid Items**

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

**7. 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, \$10,000; Buildings, improvements, substations, lines, and other plant and distribution systems, \$10,000; infrastructure, \$50,000; furniture and equipment, \$2,500; and vehicles, \$2,500. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition cost. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend assets' lives are not capitalized.

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

Asset Class	Useful Lives
Infrastructure	30
Buildings	50
Improvements	10 to 25
Vehicles	6
Furniture and equipment	10
Computer Equipment	3

**8. Deferred outflows/inflows of resources**

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

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**9. 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.

**10. Compensated Absences**

The vacation policy of the Town provides for the accumulation of up to 360 hours earned vacation leave for employees with less than 20 years of service and 480 hours for employees with 20 or more years of service, with such leave being fully vested when earned after one year of service. The Town considers all accrued leaves as being a current liability.

The Town's sick leave policy provides for up to 20 days accumulation of earned sick leave. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made. The Town also allows certain employees to accrue time in lieu of overtime, with such leave being fully vested when earned.

**11. 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 balances are composed of five classifications designed to disclose the hierarchy of constraints placed on how fund balances can be spent.

The governmental fund types classify fund balances as follows:

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

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

Prepaid items - portion of fund balance that is not an available resource because it represents the year-end balance of prepaid expenses, 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.

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Restricted for Stabilization by State Statute - North Carolina G.S. 159-8 prohibits units of government from budgeting or spending a portion of their fund balance. This is one of several statutes enacted by the North Carolina State Legislature in the 1930's that were designed to improve and maintain the fiscal health of local government units. Restricted by State statute (RSS), is calculated at the end of each fiscal year for all annually budgeted funds. The calculation in G.S. 159-8(a) provides a formula for determining what portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is what is known as "restricted by State statute". Appropriated fund balance in any fund shall not exceed the sum of cash and investments minus the sum of liabilities, encumbrances, and deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is "imposed by law through constitutional provisions or enabling legislation." RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

Restricted for Streets - 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 Cemetery – portion of fund balance that is restricted by revenue source for perpetual care of the cemetery and for future cemetery land purchases.

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

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

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

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

The Town of Pikeville has also adopted a minimum fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 10% of budgeted expenditures. Any portion of the General Fund balance in excess of 10% of budgeted expenditures may be appropriated for one-time expenditures and may not be used for any purpose that would obligate the Town in a future budget.

## 12. 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's employer contributions are recognized when due the Town has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

**Town of Pikeville, North Carolina**  
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**II. Stewardship, Compliance, and Accountability**

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

**1. Noncompliance with North Carolina General Statutes**

The Town exceeded its approved budget by \$83,604 in the general fund and \$69,207 in the water and sewer fund. The audit report was submitted late.

**2. Contractual Violations**

The Town did not meet the terms of their revenue bonds debt covenants, due to having a debt service coverage ratio of less than 100%

**B. Deficit Fund Balance or Net Position of Individual Funds**

None.

**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 agents in the units' names. 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 their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits.

At June 30, 2019, the Town's deposits had a carrying amount of \$2,187,555 and bank balances of \$2,203,252. Of the bank balances, \$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 fund totaled \$50.

**Town of Pikeville, North Carolina**  
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**2. Capital Assets**

**Primary Government**

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

<b>Governmental activities:</b>	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated				
Land	\$ 139,821	\$ -	\$ -	\$ 139,821
Capital assets being depreciated				
Buildings and improvements	330,413	-	-	330,413
Streets and sidewalks	156,238	-	-	156,238
Equipment	86,557	-	-	86,557
Vehicles and motorized equipment	276,224	4,937	-	281,161
Total assets being depreciated	849,432	4,937	-	854,369
Less accumulated depreciation				
Buildings and improvements	185,047	10,048	-	195,095
Streets and sidewalks	152,185	223	-	152,408
Equipment	63,856	3,707	-	67,563
Vehicles and motorized equipment	215,023	9,407	-	224,430
Total accumulated depreciation	616,111	\$ 23,385	\$ -	639,496
Governmental activity capital assets	<u>\$ 373,142</u>			<u>\$ 354,694</u>

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

General government	\$ 1,637
Public safety	9,588
Transportation	468
Environmental protection	3,040
Cultural and recreational	8,652
Total depreciation expense	<u>\$ 23,385</u>

**Town of Pikeville, North Carolina**  
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Business – type capital assets consist of the following:

	Beginning Balances	Increases	Decreases	Ending Balances
<b>Business-type activities:</b>				
<b>Electric Fund</b>				
Capital assets not being depreciated				
Land	-	-	-	-
Total capital assets not being depreciated	-	-	-	-
Capital assets being depreciated				
Substations, lines, and related equipment	1,900,464	-	-	1,900,464
Buildings	10,717	-	-	10,717
Vehicles	51,923	4,937	-	56,860
Total capital assets being depreciated	1,963,104	4,937	-	1,968,041
Less accumulated depreciation for				
Substations, lines, and rel:	1,423,515	32,636	-	1,456,151
Buildings	9,790	318	-	10,108
Vehicles	35,804	3,305	-	39,109
Accumulated Depreciation	1,469,109	36,259	-	1,505,368
Capital assets, depreciated, net	493,995			462,673
Electric Fund capital assets, net	493,995			462,673
<b>Water and Sewer Fund</b>				
Capital assets not being depreciated				
Land	1,067,342	-	-	1,067,342
Construction in progress	-	371,387	-	371,387
Total capital assets not being depreciated	1,067,342	371,387	-	1,438,729
Capital assets being depreciated				
Plant and distribution systems	7,328,795	-	-	7,328,795
Vehicles	19,452	23,542	-	42,994
Total capital assets being depreciated	7,348,247	23,542	-	7,371,789
Less accumulated depreciation for				
Plant and distribution syst:	2,710,694	190,647	-	2,901,341
Vehicles	15,584	3,183	-	18,767
Accumulated Depreciation	2,726,278	193,830	-	2,920,108
Capital assets, depreciated, net	4,621,969			4,451,681
Water and Sewer Fund capital assets, net	5,689,311			5,890,410
<b>Business-type activities capital assets, net</b>	<b>6,183,306</b>			<b>6,353,083</b>

Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

**Benefits Provided.** LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five

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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. 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 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 completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2015, was 7.55% of compensation for law enforcement officers and 7.07% 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 were \$34,360 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 \$135,223 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, 2019, the Town's proportion was .00570%, which was a decrease of .00102% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$46,090. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

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	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 20,862	\$ 700
Changes of assumptions	35,883	-
Net difference between projected and actual earnings on pension plan investments	18,562	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	3,097	6,539
Employer contributions subsequent to the measurement date	34,360	-
Total	<u>\$ 112,764</u>	<u>\$ 7,239</u>

\$34,360 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Future amortization:

Year Ended June 30:	
2020	\$ 36,843
2021	22,474
2022	2,627
2023	9,222
2024	-

*Actuarial Assumptions.* The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, Including inflation

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

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

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

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	6.0%	3.4%
Total	100%	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 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 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.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8%, and Inflation Protection 3.4%.

*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 liability to changes in the discount rate.* The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.00 percent, as well as what the Town's proportionate share of the 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:

	<b>1% Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
<b>Town's proportionate share of the net pension liability</b>	<b>\$ 324,819</b>	<b>\$ 135,223</b>	<b>\$ (23,205)</b>

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

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**b. Law Enforcement Officers Special Separation Allowance**

***1. Plan Description.***

The Town of Pikeville 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 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

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

Retirees receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	1
Active plan members	<u>3</u>
Total	<u><u>4</u></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 and refunds 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 meet the following criteria which are outlined in GASB Statements 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	2.50 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

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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 \$1,830 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 \$76,336. 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 \$5,419.

	<b>Deferred Outflows of</b>	<b>Deferred Inflows of</b>
Differences between expected and actual experience	\$ 7,948	\$ 13,896
Changes of assumptions	2,957	3,582
County benefit payments and plan administrative expense made subsequent to the measurement date	6,431	-
	<u>\$ 17,336</u>	<u>\$ 17,478</u>

\$6,431 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year Ended June 30:**

2020	\$ (1,404)
2021	(1,404)
2022	(1,404)
2023	(1,410)
2024	(951)
Thereafter	-
Total	<u>\$ (6,573)</u>

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

	1% Decrease 2.64%	Discount Rate 3.64%	1% Increase 4.64%
Total pension liability	\$ 83,072	\$ 76,336	\$ 70,180

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

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

	<u>2019</u>
Beginning balance	\$ 64,990
Service Cost	4,254
Interest on the total pension liability	2,025
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	10,056
Changes of assumptions or other inputs	(3,159)
Benefit payments	(1,830)
Other changes	-
Ending balance of the total pension liability	<u>\$ 76,336</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.

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

*Plan Description.* The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

*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. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$17,674, which consisted of \$8,446 from the Town and \$9,228 from the law enforcement officers.

**d. Other Employment Benefit**

The Town has elected to provide death benefits to employees through the Death Benefit Plan for Members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple employer, State administrated 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 his/her death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

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

**2. Deferred Outflows and Inflows of Resources**

Deferred outflows and inflows are as follows:

	Deferred Outflows	Deferred Inflows
Property taxes receivable (General Fund)	\$ 17,898	\$ -
Pension Contributions	34,360	-
LEO pension deferrals	17,336	17,478
Pension deferrals	78,404	7,239
Total	<u>\$ 147,998</u>	<u>\$ 24,717</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 purchases insurance to obtain the following types of major coverage for the amounts of retained risk noted: General liability (\$500,000), property (\$143,705 for equipment, \$108,000 for buildings), and worker's compensation (\$100,000 per occurrence).

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

The Town does not carry flood insurance, as management does not believe any significant bodies of water are located close enough to the Town to pose such a risk. Flooding during prior storms has not been a problem.

**4. Long-Term Obligations**

**a. General Obligation Indebtedness**

The Town has no general obligation bonds serviced by the governmental funds. The general obligation debts to finance the construction of facilities utilized in the operations of the electric system and the water and sewer system and which are being retired by their resources are reported as long-term debt in the appropriate fund. All general obligation debts are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

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

**Direct Placement General Obligation Bonds**

Services by the Water and Sewer Fund:

Direct Placement - \$500,000 State of North Carolina Water and  
Sewer Revolving Loan dated 3/4/06 for sewer treatment facility  
improvements due in annual installments of \$25,000 plus  
interest at 2.27%

\$	175,000
<u>\$</u>	<u>175,000</u>

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

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

Year Ending June 30	Total	Principal	Interest
2020	\$ 28,405	\$ 25,000	\$ 3,405
2021	28,138	25,000	3,138
2022	27,838	25,000	2,838
2023	27,270	25,000	2,270
2024	26,703	25,000	1,703
2025-2026	51,703	50,000	1,703
	<u>\$ 190,057</u>	<u>\$ 175,000</u>	<u>\$ 15,057</u>

At June 30, 2019, the Town of Pikeville had no authorized but unissued bonds and legal debt margin of \$2,566,353.

**b. Direct Placement Revenue Bonds**

Electric system improvements. Annual installments of \$67,408 are due annually on July 19, including interest at 3.99% \$ 246,144

The future payments of the revenue bond for the years ending June 30, 2019 are as follows:

Year Ending June 30	Total	Principal	Interest
2020	\$ 67,408	\$ 57,643	\$ 9,765
2021	67,408	59,943	7,465
2022	67,409	62,335	5,074
2023	68,809	66,223	2,586
	<u>\$ 271,034</u>	<u>\$ 246,144</u>	<u>\$ 24,890</u>

The Town is not in compliance with the bond covenants as to rates, fees, rentals and charges in Section 5.02 of the Bond Order, authorizing the issuance of the Electric Revenue Bonds, Series 2008. Section 5.02 of the Bond Order requires the debt service coverage ratio to be no less than 100%. The debt service coverage ratio calculation for the year ended June 30, 2019, is as follows:

Electric Fund	
Operating revenues	\$ 1,086,910
Operating expenses *	<u>1,112,895</u>
Operating income	(25,985)
Nonoperating revenues (expenses)**	<u>34</u>
Income available for debt service	(25,951)
Debt service, principal and interest paid (Revenue Bond only)	\$ 63,911
Debt service coverage ratio	-40.60%

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

\*Per rate covenants, this does not include the depreciation expense of \$36,259.

\*\*Per rate covenants, this does not include revenue bond interest paid of \$9,880.

The Town has pledged future electric customer revenues, net of specified operating expenses, to repay \$750,000 in electric system revenue bonds issued in July, 2008. Proceeds from the bonds provided financing for the improvements to the entire electric systems. The bonds are payable solely from electric customers' net revenues and are payable through 2022. Annual principal and interest payments on the bonds are expected to require less than 6 percent of net revenues. The total principal and interest remaining to be paid on the bonds is \$246,144. Principal and interest paid for the current year and total customer net revenues were \$63,911 and \$1,086,910, respectively.

**c. Direct Borrowing**

On April 3, 2018, the Town entered into a direct borrowing in the amount of \$880,000. The direct borrowing bears interest at 3.63 per annum and is due on October 3, 2019. The Town received the cash from the direct borrowing on November 20, 2018 in the amount of \$875,155 and legal fees of \$4,845 were paid out of proceeds.

**d. Changes in Long-Term Liabilities**

During the year ended June 30, 2019, the following changes occurred in long-term debt:

**Governmental Activities**

Debt	Balance 7/1/2018	Increases	Decreases	Balance 6/30/2019	Current Portion
LEO net pension liability	\$ 64,990	\$ 11,346	\$ -	\$ 76,336	\$ -
Net pension liability (LGERS)	65,704	32,562	-	98,266	-
Compensated absences	3,143	-	-	3,143	3,143
	<u>\$ 133,837</u>	<u>\$ 43,908</u>	<u>\$ -</u>	<u>\$ 177,745</u>	<u>\$ 3,143</u>

**Business-type activities**

Debt	Balance 7/1/2018	Increases	Decreases	Balance 6/30/2019	Current Portion
Direct Placement General obligation bonds	\$ 200,000	\$ -	\$ 25,000	\$ 175,000	\$ 25,000
Direct Placement Revenue Bonds	300,175	-	54,031	246,144	57,643
Direct Borrowing	880,000	-	-	880,000	880,000
Net pension liability (LGERS)	33,884	1,073	-	34,957	-
Compensated absences	10,629	2,687	-	13,316	13,316
	<u>\$ 1,424,688</u>	<u>\$ 3,760</u>	<u>\$ 79,031</u>	<u>\$ 1,349,417</u>	<u>\$ 975,959</u>

**C. Inter-fund Balances and Activity**

Balances due to/from other funds at June 30, 2019, consist of the following:

Due to the Water and Sewer Fund for temporary advances to finance sewer project:

Sewer Construction Fund

\$ 4,900

Due from the Sewer Construction Fund for temporary advances to finance sewer project:

Water and Sewer Fund

\$ 4,900

Interfund activity of \$808,089 to the Electric Fund to pay back sewer project.

**D. Fund Balance**

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

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

Total fund balance - General Fund	\$ 382,827
Less:	
Stabilization by State Statute	97,571
Streets	118,726
Cemetery	129,500
Remaining Fund Balance	\$ 37,030

The Town of Pikeville has adopted a minimum fund balance policy for the General Fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 10% of budgeted expenditures.

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

#### **IV. 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.

#### **V. Significant Effects of Subsequent Events**

The Town has evaluated subsequent events from the date of the balance sheet through the date the report is available to be issued which is the date of the independent auditors' report. The Town has not evaluated subsequent events after that date. The following subsequent event requires disclosure. The Town Hall was destroyed in a fire and significant financial and non-financial records were destroyed. The Town is currently reconstructing its records.

#### **VI. Commitments**

The Town has also entered into an agreement for electricity purchases until July 2031. Rates and charges vary under the terms of this agreement. The Town paid \$847,130 under the terms of this agreement for the year ended June 30, 2019.

The Town has entered into an agreement with the Volunteer Fire Department for fire protection services until June 30, 2020. The Town is obligated to pay \$40,000 each year under the terms of this agreement. The Town paid \$40,000 for the year ended June 30, 2019.

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## REQUIRED SUPPLEMENTARY FINANCIAL DATA

**Town of Pikeville**  
**Town of Pikeville's Proportionate Share of Net Pension Liability (Asset)**  
**Required Supplementary Information**  
**Last Six Fiscal Years \***

**Local Government Employees' Retirement System**

	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2015</b>
Pikeville's proportion of the net pension liability (asset) (%)	0.00570%	0.00672%	0.00671%	0.00575%	0.00457%	0.00540%
Pikeville's proportion of the net pension liability (asset) (\$)	\$ 135,223	\$ 102,663	\$ 142,409	\$ 25,806	\$ (26,952)	\$ 65,091
Pikeville's covered-employee payroll	\$ 414,676	\$ 405,538	\$ 391,882	\$ 342,311	\$ 284,911	\$ 271,437
Pikeville's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	32.61%	25.32%	36.34%	7.54%	(9.46%)	23.98%
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 amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

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

**Town of Pikeville  
Town of Pikeville's Contributions  
Required Supplementary Information  
Last Six Fiscal Years**

**Local Government Employees' Retirement System**

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 34,360	\$ 37,995	\$ 30,473	\$ 24,819	\$ 23,384	\$ 20,925
Contributions in relation to the contractually required contribution	34,360	37,995	30,473	24,819	23,384	20,925
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Pikeville's covered-employee payroll	\$ 428,471	\$ 414,676	\$ 405,538	\$ 391,882	\$ 342,311	\$ 284,911
Contributions as a percentage of covered-employee payroll	8.02%	9.16%	7.51%	6.33%	6.83%	7.34%

**Town of Pikeville**  
**Schedule of Changes in Total Pension Liability**  
**Law Enforcement Officers' Special Separation Allowance**  
**June 30, 2019**

	<b>2019</b>	<b>2018</b>	<b>2017</b>
Beginning balance	\$ 64,990	\$ 75,200	\$ 71,646
Service Cost	4,254	4,686	5,040
Interest on the total pension liability	2,025	2,867	2,524
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measure			
of the total pension liability	10,056	(20,240)	-
Changes of assumptions or other inputs	(3,159)	4,307	(2,144)
Benefit payments	(1,830)	(1,830)	(1,866)
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 76,336</u>	<u>\$ 64,990</u>	<u>\$ 75,200</u>

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

	<b>2019</b>		<b>2018</b>		<b>2017</b>
Total pension liability	\$ 76,336	\$	64,990	\$	75,200
Covered payroll	119,692		146,240		198,467
Total pension liability as a percentage of covered payroll	63.78%		44.44%		37.89%

Notes to the schedules:

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

**Town of Pikeville**  
**General Fund**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Ad valorem taxes:			
Taxes	\$ 311,000	\$ 310,886	\$ (114)
Penalties and interest	1,500	-	(1,500)
Total	312,500	310,886	(1,614)
Unrestricted intergovernmental:			
Local option sales taxes	145,000	176,962	31,962
Beer and wine tax	1,750	1,768	18
Telecommunication sales	15,000	5,445	(9,555)
Video tax	6,500	11,090	4,590
NC franchise tax	44,000	43,736	(264)
Gas tax refunds	2,400	2,830	430
Total	214,650	241,831	27,181
Restricted intergovernmental:			
Smart Communities Grant	-	5,000	5,000
NC Crime Control grants	-	1,833	1,833
FEMA Grant	7,200	35,582	28,382
Powell Bill	21,000	21,657	657
Solid waste disposal tax	500	489	(11)
Total	28,700	64,561	35,861
Permits and fees:			
Building permits	2,000	1,565	(435)
Total	2,000	1,565	(435)
Sales and services:			
Court facility fees	700	602	(98)
Garbage collection fees	74,000	74,319	319
Cemetery lot sales	7,000	7,000	-
Grave opening fees	7,100	8,900	1,800
Community building rent	1,425	50	(1,375)
Total	90,225	90,871	646
Investment earnings	300	2,134	1,834
Miscellaneous	2,000	10,695	8,695
Total revenues	650,375	722,543	72,168

**Town of Pikeville**  
**General Fund**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
<b>Expenditures:</b>			
<b>General Government:</b>			
Governing Body:			
Salaries and benefits		7,900	
Insurance and bonding		3,228	
Other operating expenditures		601	
Total	12,900	11,729	1,171
Administration:			
Salaries and benefits		69,917	
Professional services		85,549	
Capital outlay		4,937	
Other operating expenditures		102,859	
Total	155,850	263,262	(107,412)
Tax Listing Costs:			
Tax collection fees		-	
Total	4,000	-	4,000
Total general government	172,750	274,991	(102,241)
<b>Public safety:</b>			
Police:			
Salaries and benefits		211,713	
Vehicle maintenance and supplies		27,089	
Other operating expenditures		11,190	
Total	263,450	249,992	13,458
Fire:			
Contracted services - fire protection		40,000	
Total	40,000	40,000	-
Total public safety	303,450	289,992	13,458
<b>Transportation:</b>			
Streets:			
Salaries and benefits		28,460	
Street lights		24,730	
Vehicle maintenance and supplies		20,893	
Contracted services		4,834	
Other operating expenditures		2,188	
Powell Bill		-	
Total transportation	94,100	81,105	12,995

**Town of Pikeville**  
**General Fund**  
**Statement of Revenues, Expenditures, and**  
**Changes in Fund Balances - Budget and Actual**  
**For the Fiscal Year ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
<b>Environmental protection:</b>			
Solid Waste:			
Contracted services		66,644	
Other operating expenditures		4,244	
Total	61,950	70,888	(8,938)
Cemetery:			
Contracted services		7,775	
Other operating expenditures		931	
Total	8,250	8,706	(2,727)
Total environmental protection	70,200	79,594	(9,394)
<b>Culture and recreation:</b>			
Parks and Recreation:			
Salaries and benefits		18,653	
Utilities		8,566	
Building and grounds maintenance		2,131	
Other operating expenditures		6,325	
Total	36,800	35,675	1,125
Library:			
Capital outlay		-	
Other operating expenditures		4,447	
Total	4,900	4,447	453
Total culture and recreation	41,700	40,122	1,578
<b>Debt Service</b>			
Principal			
Interest			
Total	-	-	-
Total expenditures	682,200	765,804	(83,604)
Revenues over (under) expenditures	(31,825)	(43,261)	(11,436)
Other financing sources (uses):			
Proceeds from installment purchases	-	-	-
Appropriated fund balance	31,825	-	(31,825)
Total	31,825	-	(31,825)
Revenues and other financing sources over expenditures and other financing sources (uses)	\$ -	(43,261)	\$ (43,261)
Fund balances, beginning		426,088	
Change in reserve for inventories		-	
Fund balances, ending		\$ 382,827	

**Town of Pikeville**  
**Electric Fund**  
**Schedule of Revenues and Expenditures and Changes in Fund Balances**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Service fees	\$ 1,182,570	\$ 1,060,302	\$ (122,268)
Total	<u>1,182,570</u>	<u>1,060,302</u>	<u>(122,268)</u>
Other operating revenues	39,375	26,608	(12,767)
Total operating revenues	<u>1,221,945</u>	<u>1,086,910</u>	<u>(135,035)</u>
Nonoperating revenues:			
Interest earnings	1,000	34	(966)
Total revenues	<u>1,222,945</u>	<u>1,086,944</u>	<u>(136,001)</u>
Expenditures:			
Administration			
Salaries and employee benefits		83,318	
Supplies		7,558	
Capital outlay		4,937	
Other operating expenditures		25,341	
Total	<u>144,250</u>	<u>121,154</u>	<u>23,096</u>
Electrical operations			
Salaries and employee benefits		45,774	
Supplies		6,311	
Contracted services		91,930	
Other operating expenditures		5,534	
Total	<u>146,225</u>	<u>149,549</u>	<u>(3,324)</u>
Purchase of electricity			
Purchase of electricity		847,130	
	<u>856,470</u>	<u>847,130</u>	<u>9,340</u>
Debt service:			
Interest and other charges		9,880	
Principal retirement		54,031	
Total debt service	<u>76,000</u>	<u>63,911</u>	<u>12,089</u>
Total expenditures	<u>1,222,945</u>	<u>1,181,744</u>	<u>41,201</u>

**Town of Pikeville**  
**Electric Fund**  
**Schedule of Revenues and Expenditures and Changes in Fund Balances**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
Other financing sources (uses):			
Transfer to water and sewer fund	-		-
Transfer from water and sewer fund	-		-
Total other financing sources (uses)	-	-	-
Revenues and other sources over (under) expenditures and other uses	\$ -	\$ (94,800)	\$ (94,800)
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>			
Revenues and other sources over expenditures and other uses		\$ (94,800)	
Reconciling items:			
Principal retirement		54,031	
Capital outlay		4,937	
Depreciation		(36,259)	
Total reconciling items		22,709	
Change in net position		\$ (72,091)	

**Town of Pikeville**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures and Changes in Fund Balances**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year ended June 30, 2019**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Water sales	\$ 283,000	\$ 266,491	\$ 16,509
Sewer charges	250,000	274,488	(24,488)
Total	<u>533,000</u>	<u>540,979</u>	<u>7,979</u>
Other operating revenues	73,200	77,804	4,604
Total operating revenues	<u>606,200</u>	<u>618,783</u>	<u>12,583</u>
Nonoperating revenues:			
Interest earnings	30	48	18
Total revenues	<u>606,230</u>	<u>618,831</u>	<u>12,601</u>
Expenditures:			
Administration			
Salaries and employee benefits		60,917	
Supplies		4,762	
Other operating expenditures		23,141	
Capital outlay		4,937	
Total	<u>79,950</u>	<u>93,757</u>	<u>(13,807)</u>
Water operations			
Salaries and employee benefits		50,298	
Supplies		8,117	
Water purchases		67,210	
Other operating expenditures		64,657	
Total	<u>181,050</u>	<u>190,282</u>	<u>(9,232)</u>
Sewer operations			
Salaries and employee benefits		56,877	
Supplies		36,294	
Contracted services		51,760	
Capital outlay		18,605	
Other operating expenditures		117,194	
Total	<u>275,700</u>	<u>280,730</u>	<u>(5,030)</u>
Debt service:			
Interest and other charges		44,138	
Principal retirement		25,000	
Total debt service	<u>28,000</u>	<u>69,138</u>	<u>(41,138)</u>
Total expenditures	<u>564,700</u>	<u>633,907</u>	<u>(69,207)</u>

**Town of Pikeville**  
**Water and Sewer Fund**  
**Schedule of Revenues and Expenditures and Changes in Fund Balances**  
**Budget and Actual (Non - GAAP)**  
**For the Fiscal Year ended June 30, 2019**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):			
Transfer from electric fund	-	-	-
Proceeds from bond issuance	-	-	-
Unappropriated fund balance	(41,530)	-	(41,530)
Total other financing sources	(41,530)	-	(41,530)
(uses)	(41,530)	-	(41,530)
Revenues and other sources over (under)			
expenditures and other uses	\$ -	\$ (15,076)	\$ 15,076
<b>Reconciliation from budgetary basis</b>			
<b>(modified accrual) to full accrual:</b>			
Revenues and other sources over			
expenditures and other uses		\$ (15,076)	
Reconciling items:			
Principal retirement		25,000	
Capital outlay		23,542	
Contributed capital		353,648	
Depreciation		(193,830)	
Total reconciling items		208,360	
Change in net position		\$ 193,284	

Town of Pikeville  
Water and Sewer System Project Fund  
Schedule of Revenues and Expenditures and Changes in Fund Balance - Budget and Actual  
From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization		Actual			Variance
	July 1, 2018	June 30, 2019	Prior Years	Current Year	Total Project To Date	Favorable (Unfavorable)
<b>Revenues:</b>						
Revenues						
Bonds	\$ -	\$ 2,231,000	\$ -	\$ -	\$ -	\$ (2,231,000)
Grants	-	1,136,000	-	-	-	(1,136,000)
Miscellaneous	-	30,000	-	-	-	(30,000)
Total revenues	-	3,397,000	-	-	-	(3,397,000)
<b>Expenditures:</b>						
Current:						
Economic and physical development:						
Wastewater system improvements	-	3,496,000	-	-	-	3,496,000
Total expenditures	-	3,496,000	-	-	-	3,496,000
Revenues over (under) expenditures	-	(99,000)	-	-	-	99,000
<b>Other Financing Sources:</b>						
Transfers-in:						
From Water and Sewer Fund	-	99,000	-	-	-	(99,000)
Total other financing sources	-	99,000	-	-	-	(99,000)
<b>Revenues and other financing sources over (under) expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning of year, July 1				-		
Fund balance, ending of year, June 30				<u>\$ -</u>		

Town of Pikeville  
Division of Water Infrastructure Project Fund  
Schedule of Revenues and Expenditures and Changes in Fund Balance - Budget and Actual  
From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization		Actual			Variance
	July 1, 2018	June 30, 2019	Prior Years	Current Year	Total Project To Date	Favorable (Unfavorable)
<b>Revenues:</b>						
Revenues						
Grants	\$ -	\$ 2,772,000	\$ -	\$ 353,648	353,648	\$ (2,418,352)
Total revenues	-	2,772,000	-	353,648	353,648	(2,418,352)
<b>Expenditures:</b>						
Current:						
Economic and physical development:						
Water and sewer	-	2,772,000	-	371,387	371,387	2,400,613
Total expenditures	-	2,772,000	-	371,387	371,387	2,400,613
Revenues over (under) expenditures	-	-	-	(17,739)	(17,739)	17,739
<b>Other Financing Sources:</b>						
Transfers-in:						
From Water and Sewer Fund	-	-	-	-	-	-
Total other financing sources	-	-	-	-	-	-
<b>Revenues and other financing sources over (under) expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(17,739)</u>	<u>\$ (17,739)</u>	<u>\$ 17,739</u>
Fund balance, beginning of year, July 1				-		
Fund balance, ending of year, June 30				<u>\$ (17,739)</u>		

Town of Pikeville  
NC Connect Water Line Replacement Fund  
Schedule of Revenues and Expenditures and Changes in Fund Balance - Budget and Actual  
From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization		Actual			Variance
	July 1, 2018	June 30, 2019	Prior Years	Current Year	Total Project To Date	Favorable (Unfavorable)
<b>Revenues:</b>						
Revenues						
Contributions	\$ -	\$ 156,175	\$ -	\$ -	\$ -	\$ (156,175)
Total revenues	-	156,175	-	-	-	(156,175)
<b>Expenditures:</b>						
Current:						
Economic and physical development:						
Water and sewer	-	156,175	-	-	-	156,175
Total expenditures	-	156,175	-	-	-	156,175
Revenues over (under) expenditures	-	-	-	-	-	-
<b>Other Financing Sources:</b>						
Transfers-in:						
From Water and Sewer Fund	-	-	-	-	-	-
Total other financing sources	-	-	-	-	-	-
<b>Revenues and other financing sources over (under) expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning of year, July 1				-		
Fund balance, ending of year, June 30				<u>\$ -</u>		

Town of Pikeville  
Water System Improvements Fund  
Schedule of Revenues and Expenditures and Changes in Fund Balance - Budget and Actual  
From Inception and for the Fiscal Year Ended June 30, 2019

	Project Authorization		Actual			Variance
	July 1, 2018	June 30, 2019	Prior Years	Current Year	Total Project To Date	Favorable (Unfavorable)
<b>Revenues:</b>						
Revenues						
Grants	\$ -	\$ 228,000	\$ -	\$ -	\$ -	\$ (228,000)
Total revenues	-	228,000	-	-	-	(228,000)
<b>Expenditures:</b>						
Current:						
Economic and physical development:						
Water and sewer	-	241,348	-	-	-	241,348
Total expenditures	-	241,348	-	-	-	241,348
Revenues over (under) expenditures	-	(13,348)	-	-	-	13,348
<b>Other Financing Sources:</b>						
Transfers-in:						
From Water and Sewer Fund	-	13,348	-	-	-	(13,348)
Total other financing sources	-	13,348	-	-	-	(13,348)
<b>Revenues and other financing sources over (under) expenditures</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning of year, July 1				<u>-</u>		
Fund balance, ending of year, June 30				<u>\$ -</u>		

**Town of Pikeville  
General Fund  
Schedule of Ad Valorem Taxes Receivable  
June 30, 2019**

<u>Tax Year</u>	<u>Uncollected Balance June 30, 2018</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Abatements and Adjustments</u>	<u>Uncollected Balance June 30, 2019</u>
2018	\$ -	\$ 333,572	\$ (323,886)	\$ (1,135)	\$ 8,551
2017	8,279	-	(6,046)	(59)	2,174
2016	2,996	-	(1,424)	-	1,572
2015	1,276	-	(482)	-	794
2014	1,087	-	(61)	-	1,026
2013	1,215	-	(7)	-	1,208
2012	1,304	-	(16)	-	1,288
2011	216	-	-	-	216
2010	85	-	(1)	-	84
2009	346	-	(4)	-	342
	<u>\$ 16,804</u>	<u>\$ 333,572</u>	<u>\$ (331,927)</u>	<u>\$ (1,194)</u>	<u>\$ 17,255</u>
Ad valorem taxes receivable					\$ 17,255
Less: allowance for uncollectible accounts					
General Fund					<u>-</u>
Ad valorem taxes receivable - net					<u>\$ 17,255</u>
<u>Reconciliation with revenues:</u>					
Ad valorem taxes - General Fund					\$ 310,886
Reconciling items:					
Interest collected					(2,245)
Other adjustments					21,480
Taxes written off					<u>1,806</u>
Subtotal					<u>21,041</u>
Total collections and credits					<u>\$ 331,927</u>

**Town of Pikeville**  
**Analysis of Current Tax Levy**  
**Town - Wide Levy**  
**For the Year Ended June 30, 2019**

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year's rate	\$ 44,339,619	0.69	\$ 305,945	\$ 305,945	\$ -
Personal property taxes at current year's rate	4,004,099	0.69	27,629	-	27,629
Adjustments	-		(1,135)	(1,135)	-
Total Property Valuation	<u>\$ 48,343,718</u>				
Net levy			332,439	304,810	27,629
Uncollected taxes at June 30, 2019			<u>(8,551)</u>	<u>(8,551)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 323,888</u>	<u>\$ 296,259</u>	<u>\$ 27,629</u>
Current levy collection percentage			<u>97.43%</u>	<u>97.19%</u>	<u>100.00%</u>



PETWAY

MILLS &

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Pikeville, 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 Pikeville's basic financial statements, and have issued our report thereon dated August 3, 2020.

### Internal Control Over Financial Reporting

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

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

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. We consider the deficiencies described in the accompanying schedule of findings and responses 2019-001, 2019-002, 2019-003, 2019-004 and 2019-005 to be material weaknesses.

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. We noted no significant deficiencies.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Pikeville'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 instances of noncompliance or other matters

that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2019-001, 2019-002, 2019-003, 2019-004 and 2019-005.

Town of Pikeville's Response to Findings

Town of Pikeville's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. Town of Pikeville'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.

*Petway Mills & Pearson, PA*

PETWAY MILLS & PEARSON, PA  
Certified Public Accountants  
Zebulon, North Carolina

August 3, 2020

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

**SECTION I. – SUMMARY OF AUDITORS' RESULTS**

**Financial Statements**

Type of auditors' report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified?          X     yes                 no

Significant deficiency(ies) identified  
that are not considered to be  
material weaknesses?                 yes          X     none reported

Noncompliance material to financial  
statements noted          X     yes                 no

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

**SECTION II. – FINANCIAL STATEMENT FINDINGS**

**Material Weakness**

2019-001	Expenditures in Excess of Appropriations
Criteria:	North Carolina General Statutes require all moneys expended by a local government to be included in the budget.
Condition:	The Town's General Fund expenditures exceeded authorized appropriations made by the governing board by \$83,604. The Town's Water and Sewer Fund expenditures exceeded authorized appropriations made by the governing board by \$440,594.
Effect:	The Town did not comply with North Carolina General Statutes.
Cause:	The Town did not properly budget for expenses. This is mainly due to the Town not properly amending the budget for the above expenditures prior to year end.
Recommendation:	We recommend that the Town review budget to actual reports regularly and look more closely at expenditure accruals at year end to ensure that all expenditures related to the fiscal year are accounted for in the budget.
Views of responsible officials and planned corrective actions:	The Town agrees with this finding. The Town will review budget to actual reports regularly and look more closely at expenditure accruals at year end to ensure that all expenditures related to the fiscal year are accounted for in the budget.

**Material Weakness**

2019-002	Noncompliance with debt covenants.
Criteria:	Debt covenants require that the debt service ratio be greater than 100%.
Condition:	The Town's debt service ratio was below 100%.
Effect:	The Town did not comply with its debt covenants.
Cause:	The Town did not properly monitor their debt covenants.
Recommendation:	We recommend that the Town review their debt covenants regularly.
Views of responsible officials and planned corrective actions:	The Town agrees with this finding. The Town will review their debt covenants monthly.

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

**Material Weakness**

2019-003	The General Fund unassigned fund balance is not sufficient to fund operations.
Criteria:	Towns are required to maintain sufficient unassigned fund balance to fund operations.
Condition:	The General Fund unassigned fund balance is not sufficient to fund operations.
Effect:	The Town has insufficient funds to fund operations.
Cause:	The Town did not properly maintain their fund balance.
Recommendation:	We recommend the Town implement policies to increase their fund balance.
Views of responsible officials and planned corrective actions:	The Town agrees with this finding. The Town will implement policies in an effort to increase their fund balance.

**Material Weakness**

2019-004	Multiple errors in recording transactions.
Criteria:	Towns are required to maintain complete and accurate financial data.
Condition:	Multiple errors were made in recording transactions at year-end.
Effect:	The Town did not maintain complete and accurate financial data.
Cause:	The Town does not have staff with adequate knowledge and expertise to maintain complete and accurate financial data.
Recommendation:	We recommend that the Town perform monthly reconciliations of financial information and make all required journal entries at year-end.
Views of responsible officials and planned corrective actions:	The Town agrees with this finding. The Town will perform monthly reconciliations of financial records.

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

**Material Weakness**

2019-005	Late submission of the Town's audit report to the Local Government Commission.
Criteria:	The Local Government Commission requires all Town's submit their audit reports timely.
Condition:	The Town's audit report was not submitted timely to the Local Government Commission.
Effect:	The Town was noncompliant with the State requirements.
Cause:	The Town did not maintain complete and accurate financial data.
Recommendation:	We recommend that the Town perform monthly reconciliations of financial information and make all required journal entries at year-end.
Views of responsible officials and planned corrective actions:	The Town agrees with this finding. The Town will perform monthly reconciliations of financial records.

**Town of Pikeville  
Corrective Action Plan  
For the Year Ended June 30, 2019**

**SECTION II. – FINANCIAL STATEMENT FINDINGS**

**Material Weakness**

2019-001

Contact Person: Lisa Jones, Town Administrator

Corrective Action: The Town will review budget to actual reports regularly and look more closely at expenditure accruals at year end to ensure that all expenditures related to the fiscal year are accounted for in the budget.

Completion Date: June 30, 2020

**Material Weakness**

2019-002

Contact Person: Lisa Jones, Town Administrator

Corrective Action: The Town will review their debt covenants regularly to ensure that they are in compliance.

Completion Date: June 30, 2020

**Material Weakness**

2019-003

Contact Person: Lisa Jones, Town Administrator

Corrective Action: The town will implement policies in an effort to increase their fund balance.

Completion Date: June 30, 2020

**Town of Pikeville  
Corrective Action Plan  
For the Year Ended June 30, 2019**

**Material Weakness**

2019-004

Contact Person: Lisa Jones, Town Administrator

Corrective Action: The Town will perform monthly reconciliations of financial information and make all required journal entries at year-end.

Completion Date: June 30, 2020

**Material Weakness**

2019-005

Contact Person: Lisa Jones, Town Administrator

Corrective Action: The Town will perform monthly reconciliations of financial information.

Completion Date: June 30, 2020

**Town of Pikeville  
Summary Schedule of Prior Year's Audit Findings  
For the Year Ended June 30, 2019**

There were no prior year audit findings.

**Town of Pikeville**  
**Schedule of Expenditures of Federal and State Awards**  
**For the Year Ended June 30, 2019**

<b>Grantor/Pass-through/ Grantor-Program Title</b>	<b>Federal CFDA Number</b>	<b>State/ Pass-through Grantor's Number</b>	<b>Expenditures</b>
<b>FEDERAL AWARDS</b>			
<b>Environmental Protection Agency</b>			
Passed-through the N.C. Department of Environmental Quality			
Division of Water Resources			
Capitalization Grants For Drinking Water State Revolving Fund:	66.468		\$ 353,648
<b>U.S. Department of Homeland Security</b>			
Federal Emergency Management Agency		97.036	26,687
<b>TOTAL FEDERAL AWARDS</b>			<u>380,335</u>
<b>STATE AWARDS</b>			
<b>U.S. Department of Homeland Security</b>			
Federal Emergency Management Agency			8,895
<b>NC Department of Transportation</b>			
Powell Bill		DOT-4	21,657
<b>TOTAL STATE AWARDS</b>			<u>30,552</u>
<b>TOTAL FEDERAL AND STATE AWARDS</b>			<u><u>\$ 410,887</u></u>

**Notes to the Schedule of Expenditures of Federal and State Financial Awards**

Note 1: Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Awards includes the federal and State grant activity of the Town of Pikeville under the programs of the federal government and the State of North Carolina for the year ended June 30, 2019. Because the Schedule presents only a selected portion of the operations of the Town of Pikeville, it is not intended to and does not present the financial position, changes in net position, or cash flows for the Town of Pikeville.

Note 2: Summary of Significant Accounting Policies

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

The Town of Pikeville has elected not to use the 10-percent de minimis indirect cost rate as allowed under the Uniform Guidance.