

**TOWN OF SPARTA, NORTH CAROLINA**

**FINANCIAL STATEMENTS**

**JUNE 30, 2019**

**Town of Sparta, North Carolina  
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June 30, 2019**

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## **FINANCIAL SECTION**



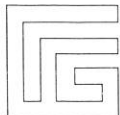
**TOWN OF SPARTA, NORTH CAROLINA**  
**JUNE 30, 2019**

**TOWN COUNCIL MEMBERS**

Wes Brinegar, Mayor  
Mike Parlier, Mayor Pro Tem  
Chris Jones  
John Brady  
Terry McGrady  
Milly Richardson

**ADMINISTRATIVE AND FINANCIAL STAFF**

Bryan Edwards, Town Manager  
Peggy Choate, Town Clerk/Finance Officer



## INDEPENDENT AUDITOR'S REPORT

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

### Report on the Financial Statements

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

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Sparta ABC Board, which represents 100 percent of the assets, net position, and revenues of the discretely presented component units. Those statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Sparta ABC Board, is based solely on the report of another auditor. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town of Sparta ABC Board were not audited in accordance with *Government Auditing Standards*.

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

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

## **Opinions**

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

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 14 and the Local Government Employees' Retirement System's Schedules of Proportionate Share of the Net Pension Liability (Asset) and Contributions on pages 56 and 57, respectively, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 58 and 59 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### **Supplementary and Other Information**

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

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 20, 2019 on our consideration of Town of Sparta's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Sparta's internal control over financial reporting and compliance.

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

Winston-Salem, North Carolina  
November 20, 2019

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

## Management's Discussion and Analysis

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

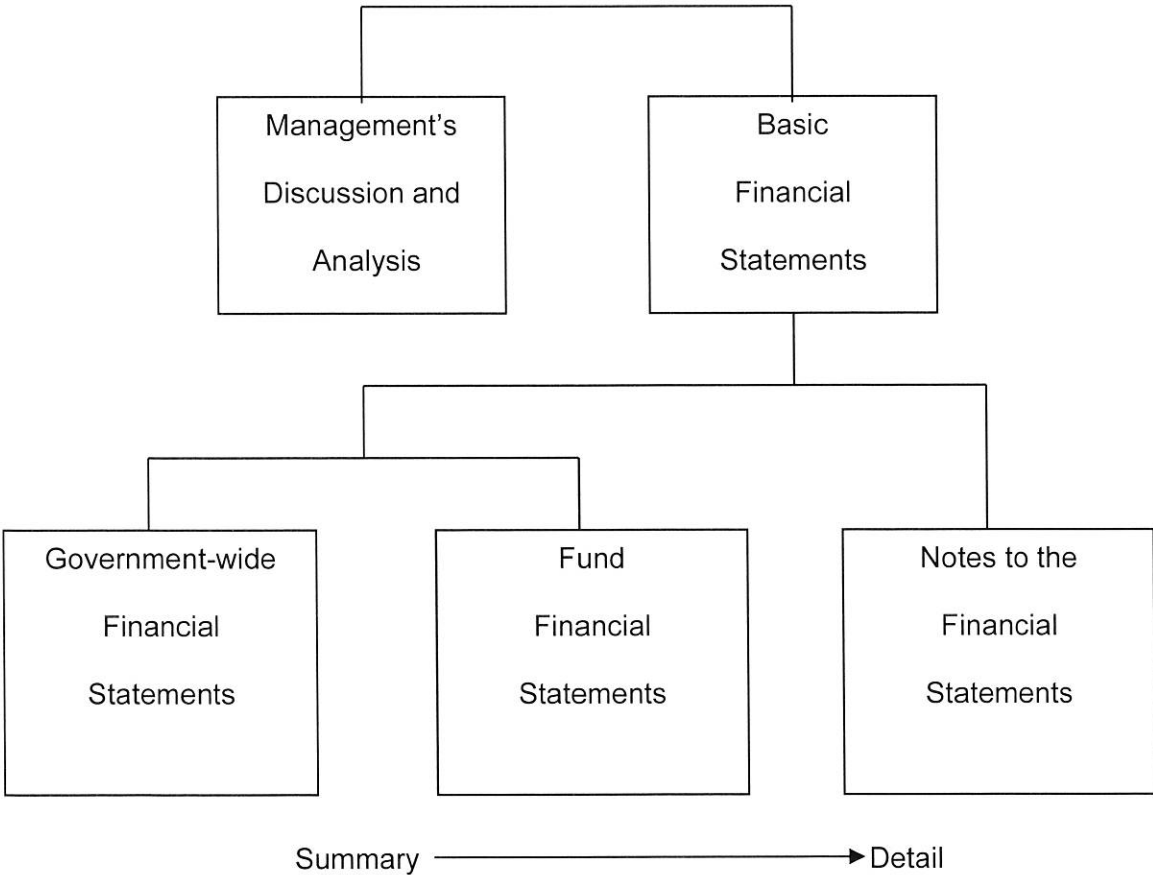
- The assets and deferred outflows of resources of the Town of Sparta exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$8,295,672 (*net position*).
- The government's total net position increased by \$376,701 primarily due to an increase in the governmental activities net position.
- As of the close of the current fiscal year, the Town of Sparta's governmental funds reported combined ending fund balances of \$1,878,115 with a net increase of \$286,429 in fund balance. Approximately 30.93 percent of this total amount, or \$580,919 is non-spendable, restricted or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,297,196 or 96.49 percent of total general fund expenditures for the fiscal year.

### Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



**Basic Financial Statements**

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

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

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

**Town of Sparta**

**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 gage the Town's financial condition.

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. 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 services offered by the Town of Sparta. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town. The Town exercises control over the Board by appointing its members and the Board is required to distribute its profits to 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 Sparta, 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 Town of Sparta can be divided into two categories: governmental funds and proprietary funds.

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



**Town of Sparta**

The Town of Sparta adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

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

**Notes to the Financial Statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 25 of this report.

**Other Information** – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Sparta's progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found beginning on page 56 of this report.

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

Management Discussion and Analysis  
**Town of Sparta**

**Government-Wide Financial Analysis**

**Town of Sparta's Net Position**

**Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 1,947,132	\$ 1,641,888	\$ 3,967,410	\$ 942,618	\$ 5,914,542	\$ 2,584,506
Capital assets	1,625,221	1,570,619	4,108,646	3,925,593	5,733,867	5,496,212
Deferred outflows of resources	91,998	62,386	-	-	91,998	62,386
Total assets and deferred outflows of resources	3,664,351	3,274,893	8,076,056	4,868,211	11,740,407	8,143,104
Long-term liabilities outstanding	150,844	115,928	277,732	-	428,576	115,928
Other liabilities	62,790	41,721	2,941,929	55,998	3,004,719	97,719
Deferred inflows of resources	11,440	10,486	-	-	11,440	10,486
Total liabilities and deferred inflows of resources	225,074	168,135	3,219,661	55,998	3,444,735	224,133
Net position:						
Net investment in capital assets	1,625,221	1,570,619	3,830,914	3,919,280	5,456,135	5,489,899
Restricted	464,285	433,610	-	-	464,285	433,610
Unrestricted	1,349,771	1,102,529	1,025,481	892,933	2,375,252	1,995,462
Total net position	\$ 3,439,277	\$ 3,106,758	\$ 4,856,395	\$ 4,812,213	\$ 8,295,672	\$ 7,918,971

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 Sparta exceeded liabilities and deferred inflows by \$8,295,672 as of June 30, 2019. The Town's net position increased by \$376,701 for the fiscal year ended June 30, 2019. However, the largest portion, \$5,456,135 (65.77%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Sparta uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Sparta's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Sparta's net position \$464,285 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,375,252 is unrestricted.

The most significant factor that influenced the total unrestricted governmental net position of the Town's financial operations for the fiscal-year ending June 2019 was based upon the positive impact of revenues that exceeded budgeted expectations and the expenses were less than budget. This was in part due to additional revenue from current tax collections exceeding projections and significant increases in collection of motor vehicle taxes. The motor vehicle tax collections percentage has improved substantially since the state began the "Tax and Tag Together" program that combines the registration fee and vehicle tax into one renewal notice.

Management Discussion and Analysis  
**Town of Sparta**

**Town of Sparta Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Charges for services	\$ 108,206	\$ 103,551	\$ 1,381,787	\$ 1,335,010	\$ 1,489,993	\$ 1,438,561
Operating grants and contributions	64,336	64,051	-	-	64,336	64,051
Capital grants and contributions	-	-	72,915	19,662	72,915	19,662
General revenues:						
Property taxes	572,322	546,537	-	-	572,322	546,537
Other taxes	865	775	-	-	865	775
Grants and contributions not restricted to specific programs	841,427	796,460	-	-	841,427	796,460
Other	41,460	49,208	3,910	622	45,370	49,830
Total revenues	1,628,616	1,560,582	1,458,612	1,355,294	3,087,228	2,915,876
Expenses:						
General government	515,856	528,858	-	-	515,856	528,858
Public safety	503,166	479,343	-	-	503,166	479,343
Transportation	36,781	34,639	-	-	36,781	34,639
Economic development	25,424	19,846	-	-	25,424	19,846
Environmental protection	105,190	99,038	-	-	105,190	99,038
Culture and recreation	109,680	105,267	-	-	109,680	105,267
Interest on long-term debt	-	-	-	-	-	-
Water and sewer	-	-	1,414,430	1,325,677	1,414,430	1,325,677
Total expenses	1,296,097	1,266,991	1,414,430	1,325,677	2,710,527	2,592,668
Increase (decrease) in net position before transfers	332,519	293,591	44,182	29,617	376,701	323,208
Transfers	-	-	-	-	-	-
Increase (decrease) in net position	332,519	293,591	44,182	29,617	376,701	323,208
Net position, beginning	3,106,758	2,813,167	4,812,213	4,782,596	7,918,971	7,595,763
Net position, June 30	\$ 3,439,277	\$ 3,106,758	\$ 4,856,395	\$ 4,812,213	\$ 8,295,672	\$ 7,918,971

## Management Discussion and Analysis

### Town of Sparta

**Governmental activities.** Governmental activities increased the Town's net position by \$332,519. Key elements of this increase are as follows:

- For the fiscal-year ending June, 2019, the General Fund revenues exceeded the budgeted amount by approximately \$104,000 dollars. The actual expenses of the General Fund were less than the budgeted expenses by approximately \$182,000 dollars; therefore there was an increase in the net position of the General Fund.

**Business-type activities:** Business-type activities increased the Town of Sparta's net position by \$44,182. Key elements of this increase are as follows:

- An increase of 3% in water and sewer service rates was approved by the town council. This allowed the town to continue to make necessary infrastructure and maintenance improvement to the system; it also contributed to the improved net position from the previous year.
- Also, the revenues in the Business-type activities (Water & Sewer Fund) exceeded the budgeted amount by approximately \$35,000 dollars, and expenses were less than budgeted by approximately \$63,000 dollars.

### Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Sparta. At the end of the current fiscal year, the Town of Sparta's fund balance available in the General Fund was \$1,297,196, while total fund balance reached \$1,710,929. The Town currently has an available fund balance of 96.49% of general fund expenditures, while total fund balance represents 127.26% of that same amount.

At June 30, 2019, the governmental funds of Town of Sparta reported a combined fund balance of \$1,878,115, with a net increase in fund balance of \$268,429. Included in this change in fund balance is an increase in fund balance for the General Fund and the Cemetery Fund.

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

Expenditures were closely monitored and held in check and the Town was able to substantially comply with its budgetary requirements. The Town maintained its contribution to the Money Purchase Pension Plan retirement fund to employees at 5%. There was a three-percent (3%) cost of living adjustment to salaries.

**Proprietary Funds.** The Town of Sparta'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 \$1,025,481. The total change in net position was an increase of \$44,182.

Other factors concerning the finances of this fund have already been addressed in the discussion of the Town of Sparta's business-type activities.

**Town of Sparta**

**Capital Asset and Debt Administration**

**Capital assets.** The Town of Sparta's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$5,733,867 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, water and sewer distribution systems and facilities, and vehicles.

Major capital asset transactions during the year include the following:

- The town completed the restoration and painting of the water tank at Parkdale Mills.
- The town continued the construction of the new waterline and booster pump for Crestview/Green Acres sub-division. This is an Eight Hundred Thirty Five Thousand Four Hundred Six Dollars (\$835,406) capital improvement project. Of this total project cost, \$685,404 dollars is zero interest loan for the State Revolving Loan Fund, and \$150,000 dollars of grant funds. This project is scheduled to complete in December, 2019.
- The town continues to work toward the implementation of the waterline replacement and streetscape project. Significant capital dollars have been invested in the engineering work to bring this project on-line. Notice to proceed issued on September 3, 2019.

**Town of Sparta's Capital Assets**  
**(net of depreciation)**

**Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 535,504	\$ 535,504	\$ 218,471	\$ 218,471	\$ 753,975	\$ 753,975
Construction in Progress	297,533	225,144	401,476	85,276	699,009	310,420
Buildings	696,883	725,318	-	-	696,883	725,318
Improvements other than buildings	26,788	34,155	-	-	26,788	34,155
Equipment and Vehicles	46,639	27,473	43,454	48,073	90,093	75,546
Infrastructure	21,874	23,025	-	-	21,874	23,025
Water and Sewer Distribution System	-	-	2,372,734	2,450,987	2,372,734	2,450,987
Wells and Storage Tanks	-	-	351,984	376,374	351,984	376,374
Wastewater Treatment Plant	-	-	720,527	746,412	720,527	746,412
Total	\$ 1,625,221	\$ 1,570,619	\$ 4,108,646	\$ 3,925,593	\$ 5,733,867	\$ 5,496,212

Management Discussion and Analysis  
**Town of Sparta**

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

**Long-term Debt.** As of June 30, 2019, the Town of Sparta had total debt outstanding of \$3,182,576. Of this, \$3,182,576 is debt backed by the full faith and credit of the Town.

**Town of Sparta's Outstanding Liabilities**

**Figure 5**

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Capital lease	\$ -	\$ -	\$ -	\$ 6,313	\$ -	\$ 6,313
State reserve loan	-	-	277,732	-	277,732	-
Bond anticipation note	-	-	2,754,000	-	2,754,000	-
Pension related debt (LGERS)	92,996	60,956	-	-	92,996	60,956
Pension related debt (LEO)	57,848	54,972	-	-	57,848	54,972
Total	\$ 150,844	\$ 115,928	\$ 3,031,732	\$ 6,313	\$ 3,182,576	\$ 122,241

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Sparta is \$11,721,657.

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

**Economic Factors and Next Year's Budgets and Rates**

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

The business environment appears to be improving as there have been some new business openings in the past year and local option sales tax revenues have increased over the past year. Local manufacturing companies report that they are very busy and are hiring additional employees. The unemployment rate for Alleghany County is near 4.2%. The waterline replacement and streetscape improvement project has received final approval and 'Notice to Proceed' on September 3, 2019. The project will include the replacement/construction of 3500 linear feet of new water line main and new service connections to businesses along Main Street, the resurfacing of Main Street, sidewalk improvements and improved traffic signals and pedestrian lighting. It is believed that these improvements will enhance the visitor experience to the town and bring more tourists and visitors. These improvements will primarily be funded with USDA-Rural loan and grant funds.

Management Discussion and Analysis  
**Town of Sparta**

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

**Governmental Activities:**

The FY 2019-20 budget is based upon a one-cent (\$0.01) increase in the property tax rate, to \$0.39 cents per \$100 dollar of assessed tax valuation. The Water & Sewer Enterprise Fund Budget includes a three-percent increase in the basic water and sewer service rate. The rate for garbage service remains the same. The budget basically maintains the current level of operations.

The 2019-20 budget did not require an appropriation from the General Fund Reserve to balance the budget. The Water & Sewer enterprise Budget did not require any appropriation from the Water & Sewer Enterprise Proprietary Fund balance.

We continue to make incremental improvement in the operational aspects of the water and sewer department, and the council has seen the benefit of implementing modest increases over the past few years to keep the department financially viable and self-supporting. We have infrastructure needs that have been identified, and we continue to plan for improvements to the water distribution system.

The priority for this budget is the maintenance of our current programs with an emphasis on maintaining the financial stability that we have been working for over many years. This includes the rebuilding of the General Fund and Enterprise Fund reserve balances; for the fourth consecutive year there is no appropriation from the General Fund Reserve required to balance the budget. This is evidence that the town is on a sound financial path to continue making the infrastructure improvements and funding the departments and organizations that are so important to our citizens.

**Requests for Information**

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager, Town of Sparta, P.O. Box 99, and (304 South Main Street) Sparta, NC 28675. One can also call 336-372-4257, visit our website [www.townofsparta.org](http://www.townofsparta.org) or send an email to [pchoate@townofsparta.org](mailto:pchoate@townofsparta.org) for more information.

## **BASIC FINANCIAL STATEMENTS**



**TOWN OF SPARTA, NORTH CAROLINA**  
**STATEMENT OF NET POSITION**  
**JUNE 30, 2019**

	Primary Government			Town of Sparta
	Governmental	Business-type	Total	ABC Board
	Activities	Activities		
<b>ASSETS</b>				
Current assets:				
Cash and cash equivalents	\$ 1,687,801	\$ 953,190	\$ 2,640,991	\$ 170,823
Taxes receivables (net)	6,227	-	6,227	-
Accounts receivable (net)	10,709	131,491	142,200	-
Due from other governments	168,910	68,113	237,023	-
Due from component unit	3,704	-	3,704	-
Inventories	-	41,937	41,937	119,306
Prepaid items	-	-	-	812
Restricted cash and cash equivalents	69,781	2,772,679	2,842,460	-
Total current assets	1,947,132	3,967,410	5,914,542	290,941
Non-current assets:				
Capital assets:				
Land, non-depreciable improvements, and construction in progress	833,037	619,947	1,452,984	25,800
Other capital assets, net of depreciation	792,184	3,488,699	4,280,883	20,817
Total capital assets	1,625,221	4,108,646	5,733,867	46,617
Total assets	3,572,353	8,076,056	11,648,409	337,558
<b>DEFERRED OUTFLOWS OF RESOURCES</b>				
Pension deferrals	91,998	-	91,998	13,747
Total deferred outflows of resources	91,998	-	91,998	13,747
<b>LIABILITIES</b>				
Current liabilities:				
Accounts payable and accrued expenses	62,790	163,358	226,148	45,429
Due to primary government	-	-	-	3,704
Due to other governments	-	-	-	22,849
Current portion of long-term liabilities	-	2,754,000	2,754,000	-
Payable from restricted assets	-	24,571	24,571	-
Total current liabilities	62,790	2,941,929	3,004,719	71,982
Long-term liabilities:				
Net pension liability	92,996	-	92,996	15,657
Total pension liability	57,848	-	57,848	-
Due in more than one year	-	277,732	277,732	-
Total liabilities	213,634	3,219,661	3,433,295	87,639
<b>DEFERRED INFLOWS OF RESOURCES</b>				
Pension deferrals	11,440	-	11,440	113
Total deferred inflows of resources	11,440	-	11,440	113
<b>NET POSITION</b>				
Net investment in capital assets	1,625,221	3,830,914	5,456,135	46,617
Restricted for:				
Cemetery Perpetual Care	167,186	-	167,186	-
Stabilization by State Statute	183,323	-	183,323	-
Streets	113,776	-	113,776	-
Other purposes	-	-	-	25,887
Unrestricted	1,349,771	1,025,481	2,375,252	191,049
Total net position	\$ 3,439,277	\$ 4,856,395	\$ 8,295,672	\$ 263,553

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

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	Town of Sparta ABC Board
					Governmental Activities	Business-type Activities		
<b>Primary government:</b>								
Governmental Activities:								
General government	\$ 515,856	\$ -	\$ -	\$ -	\$ (515,856)	\$ -	\$ (515,856)	\$ -
Public safety	503,166	-	4,695	-	(498,471)	-	(498,471)	-
Transportation	36,781	-	58,380	-	21,599	-	21,599	-
Economic development	25,424	-	-	-	(25,424)	-	(25,424)	-
Environmental protection	105,190	107,252	1,261	-	3,323	-	3,323	-
Cultural and recreation	109,680	954	-	-	(108,726)	-	(108,726)	-
Interest on long-term debt	-	-	-	-	-	-	-	-
Total governmental activities	1,296,097	108,206	64,336	-	(1,123,555)	-	(1,123,555)	-
Business-type activities:								
Water and sewer	1,414,430	1,381,787	-	72,915	-	40,272	40,272	-
Total business-type activities	1,414,430	1,381,787	-	72,915	-	40,272	40,272	-
Total primary government	\$ 2,710,527	\$ 1,489,993	\$ 64,336	\$ 72,915	(1,123,555)	40,272	(1,083,283)	-
Component unit:								
ABC Board	\$ 851,344	\$ 874,054	\$ -	\$ -	-	-	-	22,710
Total component unit	\$ 851,344	\$ 874,054	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 22,710
General revenues:								
Taxes:								
Property taxes, levied for general purpose					572,322	-	572,322	-
Other taxes					865	-	865	-
Grants and contributions not restricted to specific programs					841,427	-	841,427	-
Unrestricted investment earnings					5,526	3,910	9,436	199
Miscellaneous					35,934	-	35,934	-
Total general revenues not including transfers					1,456,074	3,910	1,459,984	199
Transfers					-	-	-	-
Total general revenues and transfers					1,456,074	3,910	1,459,984	199
Change in net position					332,519	44,182	376,701	22,909
Net position, beginning					3,106,758	4,812,213	7,918,971	240,644
Net position, ending					\$ 3,439,277	\$ 4,856,395	\$ 8,295,672	\$ 263,553

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

	<b>Major Fund</b>		
	<b>General</b>	<b>Total Non-Major Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,520,615	\$ 167,186	\$ 1,687,801
Restricted cash and cash equivalents	69,781	-	69,781
Receivables, net:			
Taxes	6,227	-	6,227
Accounts	10,709	-	10,709
Due from other governments	168,910	-	168,910
Due from component unit	3,704	-	3,704
Total assets	<u>1,779,946</u>	<u>167,186</u>	<u>1,947,132</u>
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	62,790	-	62,790
Total liabilities	<u>62,790</u>	<u>-</u>	<u>62,790</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Property taxes receivable	6,227	-	6,227
Total deferred inflows of resources	<u>6,227</u>	<u>-</u>	<u>6,227</u>
<b>FUND BALANCES</b>			
Non Spendable			
Perpetual maintenance	-	167,186	167,186
Restricted			
Stabilization by State statute	183,323	-	183,323
Streets	113,776	-	113,776
Assigned			
Health benefits	116,634	-	116,634
Unassigned	1,297,196	-	1,297,196
Total fund balances	<u>1,710,929</u>	<u>167,186</u>	<u>1,878,115</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,779,946</u>	<u>\$ 167,186</u>	

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

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

Gross capital assets at historical cost	\$ 2,768,269	
Accumulated depreciation	<u>(1,143,048)</u>	1,625,221

Deferred outflows of resources related to pensions are not reported in the funds 91,998

Earned revenues considered deferred inflows of resources in fund statements. 6,227

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

Net pension liability	(92,996)
Total pension liability	(57,848)

Deferred inflows of resources related to pensions are not reported in the funds (11,440)

Net position of governmental activities \$ 3,439,277

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

	<b>Major Fund</b>		
	<b>General Fund</b>	<b>Total Non-Major Funds</b>	<b>Total Governmental Funds</b>
<b>REVENUES</b>			
Ad valorem taxes	\$ 574,576	\$ -	\$ 574,576
Other taxes and licenses	865	-	865
Unrestricted intergovernmental	841,427	-	841,427
Restricted intergovernmental	64,336	-	64,336
Sales and services	108,206	-	108,206
Investment earnings	5,274	252	5,526
Miscellaneous	35,936	-	35,936
Total revenues	<u>1,630,620</u>	<u>252</u>	<u>1,630,872</u>
<b>EXPENDITURES</b>			
Current:			
General government	507,404	-	507,404
Public safety	521,384	-	521,384
Transportation	28,328	-	28,328
Economic development	89,361	-	89,361
Environmental protection	96,738	-	96,738
Cultural and recreation	101,228	-	101,228
Debt service:			
Principal	-	-	-
Interest and other charges	-	-	-
Total expenditures	<u>1,344,443</u>	<u>-</u>	<u>1,344,443</u>
Excess (deficiency) of revenues over expenditures	<u>286,177</u>	<u>252</u>	<u>286,429</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	286,177	252	286,429
Fund balances, beginning	1,424,752	166,934	
Fund balances, ending	<u>\$ 1,710,929</u>	<u>\$ 167,186</u>	

(continued)

**TOWN OF SPARTA, NORTH CAROLINA**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES**  
**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		\$ 286,429
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.		
Capital outlay expenditures which were capitalized	\$ 105,315	
Depreciation expense for governmental assets	<u>(50,713)</u>	54,602
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		17,814
Benefit payments paid and administrative expense for LEOSA are not included on the Statement of Activities		10,837
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		(2,254)
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.		
Principal payments on long-term debt		-
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Pension expense		<u>(34,909)</u>
Total changes in net position of governmental activities		<u><u>\$ 332,519</u></u>

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

	<b>General Fund</b>			
	Original	Final	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 538,446	\$ 538,446	\$ 574,576	\$ 36,130
Other taxes and licenses	600	600	865	265
Unrestricted intergovernmental	776,250	776,250	841,427	65,177
Restricted intergovernmental	60,635	60,635	64,336	3,701
Sales and services	111,696	111,696	108,206	(3,490)
Investment earnings	2,800	2,800	5,274	2,474
Miscellaneous	35,740	35,740	35,936	196
Total revenues	1,526,167	1,526,167	1,630,620	104,453
Expenditures:				
Current:				
General government	558,760	566,671	507,404	59,267
Public safety	556,170	556,170	521,384	34,786
Transportation	57,635	57,635	28,328	29,307
Economic development	124,500	116,589	89,361	27,228
Environmental protection	95,275	104,775	96,738	8,037
Cultural and recreation	113,950	113,950	101,228	12,722
Contingency	19,877	10,377	-	10,377
Debt service:				
Principal retirement	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	1,526,167	1,526,167	1,344,443	181,724
Revenues over (under) expenditures	-	-	286,177	286,177
Other financing sources (uses):				
Transfers from other funds	-	-	-	-
Transfers to other funds	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	\$ -	\$ -	286,177	\$ 286,177
Fund balances, beginning			1,424,752	
Fund balances, ending			<u>\$ 1,710,929</u>	

**TOWN OF SPARTA, NORTH CAROLINA**  
**STATEMENT OF FUND NET POSITION**  
**PROPRIETARY FUND**  
**JUNE 30, 2019**

	<b>Major Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 953,190	\$ 953,190
Accounts receivable (net) - billed	131,491	131,491
Due from other governments	68,113	68,113
Inventories	41,937	41,937
Restricted cash and cash equivalents	2,772,679	2,772,679
Total current assets	3,967,410	3,967,410
Noncurrent assets:		
Capital assets:		
Land and other non-depreciable assets	619,947	619,947
Other capital assets, net of depreciation	3,488,699	3,488,699
Capital assets	4,108,646	4,108,646
Total non-current assets	4,108,646	4,108,646
Total assets	8,076,056	8,076,056
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Pension deferrals	-	-
Total deferred outflows of resources	-	-
<b>LIABILITIES</b>		
Current liabilities:		
Accounts payable and accrued liabilities	163,358	163,358
Capitalized lease payable - current	-	-
State reserve loan - current	-	-
Bond anticipation notes payable	2,754,000	2,754,000
Liabilities payable from restricted assets:		
Customer deposits	24,571	24,571
Total current liabilities	2,941,929	2,941,929
Noncurrent liabilities:		
Capitalized lease payable - noncurrent	-	-
State reserve loan - noncurrent	277,732	277,732
Total noncurrent liabilities	277,732	277,732
Total liabilities	3,219,661	3,219,661
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Pension deferrals	-	-
Total deferred inflows of resources	-	-
<b>NET POSITION</b>		
Net investment in capital assets	3,830,914	3,830,914
Unrestricted	1,025,481	1,025,481
Total net position	\$ 4,856,395	\$ 4,856,395

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

	<b>Major Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>OPERATING REVENUES</b>		
Water charges	\$ 866,072	\$ 866,072
Sewer charges	450,478	450,478
Water and sewer taps	3,500	3,500
Other operating revenues	61,737	61,737
<b>Total operating revenues</b>	<b>1,381,787</b>	<b>1,381,787</b>
<b>OPERATING EXPENSES</b>		
Plant and system operations:		
Water department	924,625	924,625
Sewer department	350,691	350,691
Depreciation	133,147	133,147
<b>Total operating expenses</b>	<b>1,408,463</b>	<b>1,408,463</b>
<b>Operating income</b>	<b>(26,676)</b>	<b>(26,676)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Investment earnings	3,910	3,910
Interest and other charges	(67)	(67)
Loan costs	(5,900)	(5,900)
<b>Total nonoperating revenues (expenses)</b>	<b>(2,057)</b>	<b>(2,057)</b>
<b>Income before contributions and transfers</b>	<b>(28,733)</b>	<b>(28,733)</b>
Capital contributions	72,915	72,915
Transfers from other funds	-	-
<b>Change in net position</b>	<b>44,182</b>	<b>44,182</b>
<b>Total net position, beginning</b>	<b>4,812,213</b>	<b>4,812,213</b>
<b>Total net position, ending</b>	<b>\$ 4,856,395</b>	<b>\$ 4,856,395</b>



**TOWN OF SPARTA, NORTH CAROLINA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	<b>Major Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Total</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from customers	\$ 1,325,015	\$ 1,325,015
Cash paid for goods and services	(891,592)	(891,592)
Cash paid to or on behalf of employees for services	(380,656)	(380,656)
Customer deposits received	11,396	11,396
Customer deposits returned	(9,124)	(9,124)
Other operating revenues	65,237	65,237
Net cash provided by operating activities	120,276	120,276
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Transfers from other funds	-	-
Total cash flows from noncapital financing activities	-	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Bond anticipation note issued	2,754,000	2,754,000
State reserve loan proceeds	277,732	277,732
Acquisition and construction of capital assets	(184,244)	(184,244)
Bond issue costs	(5,900)	(5,900)
Payments on capital lease	(6,314)	(6,314)
Interest paid on capital lease	(67)	(67)
Capital contribution	35,549	35,549
Net cash used by capital and related financing activities	2,870,756	2,870,756
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest	3,910	3,910
Net increase (decrease) in cash and cash equivalents	2,994,942	2,994,942
Balances, beginning	730,927	730,927
Balances, ending	\$ 3,725,869	\$ 3,725,869
<b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital contribution by accounts receivable	\$ 57,028	\$ 57,028
Acquisition of capital assets by accounts payable	\$ 135,221	\$ 135,221

(continued)

**TOWN OF SPARTA, NORTH CAROLINA**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUND**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	<b>Major Enterprise Fund</b>	
	<b>Water and Sewer Fund</b>	<b>Total</b>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ (26,676)	\$ (26,676)
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	133,147	133,147
Changes in assets and liabilities:		
Decrease in accounts receivable	9,434	9,434
Increase in due from other governments	(969)	(969)
Increase in inventory	(949)	(949)
Increase in accounts payable and accrued liabilities	4,017	4,017
Increase in customer deposits	2,272	2,272
Total adjustments	146,952	146,952
Net cash provided by operating activities	\$ 120,276	\$ 120,276

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note I. Summary of Significant Accounting Policies**

The accounting policies of the Town of Sparta and its discretely presented component unit 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 Sparta is a municipal corporation which is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit presented below is reported in a separate column in the Town's financial statements in order to emphasize that it is legally separate from the Town.

**Town of Sparta ABC Board**

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Town of Sparta ABC Board, Sparta, North Carolina.

**B. Basis of Presentation**

*Government-wide Statements:* The statement of net position and the statement of activities display information about the primary government and its component unit. 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.

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note I. Summary of Significant Accounting Policies (Continued)**

**B. Basis of Presentation (Continued)**

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

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

The Town reports the following major governmental 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 non-major governmental fund:

**Cemetery Care Fund.** This fund is used to account for perpetual care of the municipal cemetery.

The Town reports the following major enterprise fund:

**Water and Sewer Fund.** This fund is used to account for the Town's water and sewer operations. A Water and Sewer Capital Projects Fund has been consolidated into the Water and Sewer Fund for financial reporting purposes. The budgetary comparison for the Water and Sewer Capital Projects Fund has been included in the supplemental information.

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note I. Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus and Basis of Accounting**

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for 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 a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note I. Summary of Significant Accounting Policies (Continued)**

**C. Measurement Focus and Basis of Accounting (Continued)**

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

**D. Budgetary Data**

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

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

**1. Deposits and Investments**

All deposits of the Town and the ABC Board are made in board-designated official depositories and are secured as required by State law (G. S. 159-31). The Town and the ABC Board may designate, as an official depository, any bank or savings and loan association whose principal office is located in North Carolina. Also, the Town and the ABC Board 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 and the ABC Board 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).

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2019

**Note I. Summary of Significant Accounting Policies (Continued)**

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)**

**2. Cash and Cash Equivalents**

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

**3. Restricted Assets**

The unexpended bond proceeds of Water and Sewer Fund bond anticipation note issued by the Town are classified as restricted assets for the enterprise fund because their use is completely restricted to the purpose for which the bonds were originally issued. Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes in G.S. 136-41.1 through 136-41.4.

Town of Sparta Restricted Cash

Governmental Activities

General Fund

Streets	\$ 69,781
Total governmental activities	<u>69,781</u>

Business-type Activities

Water and Sewer Fund

Customer deposits	24,571
Unexpended bond anticipation note proceeds	<u>2,748,108</u>
Total Business-type Activities	<u>2,772,679</u>

Total Restricted Cash	<u>\$ 2,842,460</u>
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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<sup>st</sup> (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. These taxes are based on the assessed values as of January 1, 2018. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. 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.



**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note I. Summary of Significant Accounting Policies (Continued)**

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)**

**6. Inventory**

The inventory of the Town and the ABC Board are valued at the lower of cost (first-in, first-out) or market. The inventory of the Town's Enterprise Fund consists of materials and supplies held for subsequent use. The inventory of the Town of Sparta ABC Board consists of goods held for sale. The cost of these inventories is expensed when consumed rather than when purchased.

**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 cost is \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	30-40 years
Improvements	10-15 years
Vehicles	5 years
Furniture and equipment	5-10 years
Computer equipment	5 years
Sewer distribution system	50 years
Water distribution system	50 years

Property and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Building and improvements	10 - 20 years
Furniture and equipment	3 - 10 years
Law enforcement equipment	3 - 10 years
Parking lot improvements	10 years

**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, pension deferrals in the 2019 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate



**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note I. Summary of Significant Accounting Policies (Continued)**

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)**

**8. Deferred outflows/inflows of resources (Continued)**

section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criterion for this category - property taxes receivable and pension deferrals.

**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.

**10. Compensated Absences**

The vacation policy of the Town does not provide for the accumulation of earned vacation leave beyond one year. Vacation is granted annually at the beginning of each calendar year and must be taken by the end of the calendar year. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences are recorded as the leave is earned.

The Town does not have a formal sick leave policy. Each case is decided on the basis of individual need. Since the Town does not have any obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

ABC Board employees must take accumulated vacation by June 30 of each year, and vacation is lost if not taken by that date. The Board has no formal policy on sick leave. Each case is decided on the basis of individual need. Since the Board does not have any obligation for sick leave until it is actually taken, no accrual for sick leave has been made.

**11. Net Position/ Fund Balances**

**Net Position**

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

**Fund Balances**

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

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note I. Summary of Significant Accounting Policies (Continued)**

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)**

**11. Net Position/ Fund Balances (Continued)**

**Fund Balances (Continued)**

The governmental fund types classify fund balances as follows:

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

**Perpetual maintenance** – Cemetery resources that are required to be retained in perpetuity for maintenance of the Town of Sparta Cemetery.

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

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

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

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

**Assigned for Health Benefits** - portion of fund balance that is to be used for the payment of health insurance benefits from the General Fund.

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

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note I. Summary of Significant Accounting Policies (Continued)**

**E. Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Equity (Continued)**

**11. Net Position/ Fund Balances (Continued)**

**Fund Balances (Continued)**

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

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

**12. Defined Benefit Cost-Sharing Plans**

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

**Note II. Detail Notes on All Funds**

**A. Assets**

**1. Deposits**

All the deposits of the Town and the ABC Board 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 or the ABC Board's agents in these 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 and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board'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, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town and the ABC Board under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows.

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**A. Assets (Continued)**

**1. Deposits (continued)**

However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2019, the Town's deposits had a carrying amount of \$5,483,186 and a bank balance of \$5,414,268. Of the bank balance, \$500,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$154,752 and the bank balance was \$165,366. All of the bank balances were covered by federal depository insurance. At June 30, 2019, the Town's petty cash fund totaled \$265.

**2. Investments**

The Town and the ABC Board have no investments. All funds are in deposit type accounts.

**3. Receivables - Allowances for Doubtful Accounts**

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

General Fund:

Taxes receivable           \$ 14,970

Enterprise Fund:

Accounts receivable       8,000

Total                               \$ 22,970

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2019

**Note II. Detail Notes on All Funds (Continued)**

**A. Assets (Continued)**

**4. Capital Assets**

**Primary Government**

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

Governmental Activities:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 535,504	\$ -	\$ -	\$ 535,504
Construction in progress	225,144	72,389	-	297,533
Total capital assets not being depreciated	<u>760,648</u>	<u>72,389</u>	<u>-</u>	<u>833,037</u>
Capital assets being depreciated:				
Land improvements	14,800	-	-	14,800
Crouse Park improvements	224,839	-	-	224,839
Buildings	1,122,320	-	-	1,122,320
Equipment and vehicles	505,811	32,926	-	538,737
Infrastructure	34,536	-	-	34,536
Total capital assets being depreciated	<u>1,902,306</u>	<u>32,926</u>	<u>-</u>	<u>1,935,232</u>
Less accumulated depreciation for:				
Land improvements	14,800	-	-	14,800
Crouse Park improvements	190,684	7,367	-	198,051
Buildings	397,002	28,435	-	425,437
Equipment and vehicles	478,338	13,760	-	492,098
Infrastructure	11,511	1,151	-	12,662
Total accumulated depreciation	<u>1,092,335</u>	<u>50,713</u>	<u>-</u>	<u>1,143,048</u>
Total capital assets being depreciated, net	<u>809,971</u>			<u>792,184</u>
Governmental activity capital assets, net	<u>\$ 1,570,619</u>			<u>\$ 1,625,221</u>

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**A. Assets (Continued)**

**4. Capital Assets (Continued)**

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

General government	\$ 8,452
Public safety	8,452
Transportation	8,453
Economic development	8,452
Environmental protection	8,452
Cultural and recreation	8,452
Total depreciation expense	<u>\$ 50,713</u>

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2019

**Note II. Detail Notes on All Funds (Continued)**

**A. Assets (Continued)**

**4. Capital Assets (Continued)**

Business Type Activities: Water and Sewer Fund	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 218,471	\$ -	\$ -	\$ 218,471
Construction in progress	85,276	316,200	-	401,476
Total capital assets not being depreciated	303,747	316,200	-	619,947
Capital assets being depreciated:				
Distribution systems	4,383,743	-	-	4,383,743
Wells	252,346	-	-	252,346
Storage tanks	852,223	-	-	852,223
Equipment and vehicles	217,643	-	-	217,643
Wastewater treatment plant	1,294,224	-	-	1,294,224
Total capital assets being depreciated	7,000,179	-	-	7,000,179
Less accumulated depreciation for:				
Distribution systems	1,932,756	78,253	-	2,011,009
Wells	164,545	6,947	-	171,492
Storage tanks	563,650	17,443	-	581,093
Equipment and vehicles	169,570	4,619	-	174,189
Wastewater treatment plant	547,812	25,885	-	573,697
Total accumulated depreciation	3,378,333	133,147	-	3,511,480
Total capital assets being depreciated, net	3,621,846			3,488,699
Business type activity capital assets, net	\$ 3,925,593			\$ 4,108,646

**Construction commitments**

The government has active construction projects as of June 30, 2019. At year end, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Crestview Pump Station	\$ 293,541	\$ 381,131

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2019

**Note II. Detail Notes on All Funds (Continued)**

**A. Assets (Continued)**

**4. Capital Assets (Continued)**

**Discretely presented component unit**

Activity for the ABC Board for the year ended June 30, 2019 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 25,800	\$ -	\$ -	\$ 25,800
Capital assets being depreciated:				
Buildings	66,927	-	-	66,927
Other Improvements	8,314	1,600	-	9,914
Equipment and furniture	95,687	2,967	-	98,654
Total capital assets being depreciated	<u>170,928</u>	<u>4,567</u>	<u>-</u>	<u>175,495</u>
Less accumulated depreciation for:				
Buildings	53,490	995	-	54,485
Other Improvements	8,314	160	-	8,474
Equipment and furniture	85,630	6,089	-	91,719
Total accumulated depreciation	<u>147,434</u>	<u>7,244</u>	<u>-</u>	<u>154,678</u>
Capital assets being depreciated, net	<u>23,494</u>			<u>20,817</u>
ABC Board capital assets, net	<u>\$ 49,294</u>			<u>\$ 46,617</u>



**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities**

**1. Pension Plan Obligations**

**a. Local Governmental Employees' Retirement System**

*Plan Description.* The Town of Sparta 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 the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at [www.osc.nc.gov](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 years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

**a. Local Governmental Employees' Retirement System (Continued)**

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

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Sparta employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Sparta's contractually required contribution rate for the year ended June 30, 2019, was 8.50% of compensation for law enforcement officers and 0.00% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Sparta were \$17,814 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 \$92,996 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 asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2019

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

**a. Local Governmental Employees' Retirement System (Continued)**

projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town's proportion was 0.00392%, which was an decrease of 0.00007% from its proportion measured as of June 30, 2017.

For the year ended June 30, 2019, the Town recognized pension expense of \$26,485. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 14,347	\$ 481
Changes of assumptions	24,677	-
Net difference between projected and actual earnings on pension plan investments	12,765	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	6,011
Town contributions subsequent to the measurement date	17,814	-
Total	<u>\$ 69,603</u>	<u>\$ 6,492</u>

\$17,814 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

**Year ended June 30:**

2020	\$ 22,118
2021	14,670
2022	1,610
2023	6,900
2024	-
Thereafter	-

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

**a. Local Governmental Employees' Retirement System (Continued)**

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

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

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

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

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

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

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2019

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

**a. Local Governmental Employees' Retirement System (Continued)**

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

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

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

*Sensitivity of the Town's proportionate share of the net pension 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 asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Fiscal Year Ended June 30, 2019

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

**a. Local Governmental Employees' Retirement System (Continued)**

	<b>1% Decrease (6.00%)</b>	<b>Discount Rate (7.00%)</b>	<b>1% Increase (8.00%)</b>
Town's proportionate share of the net pension liability (asset)	\$ 223,384	\$ 92,996	\$ (15,959)

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

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

**1. Plan Description.**

The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .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	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>6</u>
Total	<u><u>7</u></u>

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

**b. Law Enforcement Officers' Special Separation Allowance (Continued)**

**2. Summary of Significant Accounting Policies**

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

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

**3. Actuarial Assumptions**

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

Inflation	2.50 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-2014 Mortality tables with adjustments for mortality improvements based on Scale AA.

**4. Contributions.**

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$10,837 as benefits came due for the reporting period.



**TOWN OF SPARTA, NORTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

**b. Law Enforcement Officers' Special Separation Allowance (Continued)**

***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 \$57,848. The total pension liability was measured as of December 31, 2017 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 \$8,421.

	<b>Deferred Outflows of Resources</b>	<b>Inflows of Resources</b>
Differences between expected and actual experience	\$ 9,322	\$ 1,251
Changes of assumptions	2,236	3,697
Town benefit payments and plan administrative expense made subsequent to the measurement date	10,837	-
Total	<u>\$ 22,395</u>	<u>\$ 4,948</u>

\$10,837 paid as benefits became due subsequent to the measurement date have been reported as deferred outflows of resources and 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	\$ 1,454
2021	1,454
2022	1,489
2023	1,361
2024	852
Thereafter	-



**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

**b. Law Enforcement Officers' Special Separation Allowance (Continued)**

*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:

	<b>1% Decrease (2.64%)</b>	<b>Discount Rate (3.64%)</b>	<b>1% Increase (4.64%)</b>
Total pension liability	\$ 66,135	\$ 57,848	\$ 50,694

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

	<b>2019</b>
Beginning balance	\$ 54,972
Service Cost	6,333
Interest on the total pension liability	1,540
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	11,331
Changes of assumptions or other inputs	(3,829)
Benefit payments	(12,499)
Other changes	-
Ending balance of the total pension liability	<u>\$ 57,848</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.

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

**b. Law Enforcement Officers' Special Separation Allowance (Continued)**

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

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

	LGERS	LEOSSA	Total
Pension Expense	\$ 26,485	\$ 8,421	\$ 34,906
Pension Liability	92,996	57,848	150,844
Proportionate share of the net pension liability	0.00392%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	14,347	9,322	23,669
Changes of assumptions	24,677	2,236	26,913
Net difference between projected and actual earnings on plan investments	12,765	-	12,765
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	17,814	10,837	28,651
Deferred of Inflows of Resources			
Differences between expected and actual experience	481	1,251	1,732
Changes of assumptions	-	3,697	3,697
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	6,011	-	6,011

**TOWN OF SPARTA, NORTH CAROLINA  
NOTES TO FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**1. Pension Plan Obligations (Continued)**

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

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

**Funding Policy.** Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$13,901 which consisted of \$10,611 from the Town and \$3,290 from the law enforcement officers.

**d. Town of Sparta Employees' Retirement Plan**

All employees of the Town are eligible to participate in the Town's defined contribution retirement plan. Participation begins after one year of employment for full-time employees and after 1,000 hours of service for part-time employees. Under the provisions of the plan, the Town makes a contribution equal to 5% of compensation. The Town makes monthly contributions during the year. For the year ended June 30, 2019, the Town paid contributions to the plan of \$33,333.

**e. Town of Sparta 457 Retirement Plan**

All employees of the Town are eligible to participate in the Town's 457 defined contribution retirement plan. Participation begins at time of employment for full-time employees and after 1,000 hours of service for part-time employees. Under the provisions of the plan, employees may contribute up to 5% of compensation, subject to a \$7,500 maximum, and the Town contributes up to 5% of the employees' compensation. Total contributions for the year ended June 30, 2019 amounted to \$37,390 which consisted of \$14,300 from employees and \$23,090 from the Town.

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

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

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

Source	Amount
Contributions to pension plan in current fiscal year	\$ 17,814
Benefit payments made for LEOSA	10,837
Differences between expected and actual experience	23,669
Changes of assumptions	26,913
Net difference between projected and actual earnings on pension plan investments	12,765
Changes in proportion and differences between employer contributions and proportionate share of contributions	-
Total	<u>\$ 91,998</u>

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

	Statement of Net Position	General Fund Balance Sheet
Taxes Receivable, less penalties (General Fund)	\$ -	\$ 6,227
Changes in assumptions	3,697	-
Differences between expected and actual experience	1,732	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,011	-
Total	<u>\$ 11,440</u>	<u>\$ 6,227</u>

**3. Commitments**

**Solid Waste collection:** The Town has entered into an agreement for solid waste collection expiring in June 2020 for approximately \$76,000 per year.

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**4. Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Excess insurance coverage is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of the reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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

The Town does not carry flood insurance as none of the Town's property is within flood zones.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$100,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$10,000.

The Town of Sparta ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; error and omissions; injury to employees; and natural disasters. The ABC board has property, general liability, auto liability, workers' compensation, and employee health coverage. The ABC board also has liquor legal liability coverage. There have been no significant reductions in insurance coverage from coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years. In accordance with G.S. 18B-700(I), each board member and the employees designated as the general manager and finance officer are bonded in the amount of \$50,000 secured by a corporate surety.

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**5. Long-Term Obligations**

**a. Capital Leases**

The Town has entered into an agreement to lease certain equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception.

The agreement was executed on December 2, 2013 to lease a backhoe and requires 60 monthly payments of \$1,276. In the agreement, title passes to the Town at the end of the lease term.

The following is an analysis of the asset recorded under the capital lease at June 30, 2019:

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Equipment and vehicles	\$ 69,116	\$ 25,726	\$ 43,390
Total	\$ 69,116	\$ 25,726	\$ 43,390

The lease was paid off during the year.

**b. Notes Payable**

In April 2019, the Town issued a \$685,406 promissory note to the Drinking Water State Revolving Fund to help with construction of the Crestview Booster Pump Station and Water System Improvements project. Interest will accrue at the rate of 0% per annum on the unpaid principal. The principal is to be repaid, and presented in these financial statements, in 20 annual installments of \$34,270 beginning May 1, 2021.

At June 30, 2019, the amount of the draws on the note was \$277,732. No payments have been made bringing the unpaid balance to \$277,732.

Year Ending June 30	Principal	Interest
2020	\$ -	\$ -
2021	34,270	-
2022	34,270	-
2023	34,270	-
2024	34,270	-
2025-2029	171,350	-
2030-2034	171,350	-
2035-2039	171,350	-
2040	34,276	-
Total	\$ 685,406	\$ -

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**5. Long-Term Obligations (Continued)**

**c. General Obligation Indebtedness**

General obligation bonds will be issued to finance the construction of facilities utilized in the operations of the water and sewer system and which will be retired by its resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the full faith, credit, and taxing power of the Town. Principal and interest requirements are appropriated when due.

**Bond Anticipation Notes**

\$2,754,000 Water and Economic Development Note issued June 20, 2019, and due on July 22, 2020; interest at 2.82%. The note will be repaid from a bond issue expected to be sold in the next fiscal year. \$2,754,000

	Year Ending June 30	Principal	Interest
	2021	\$ 2,754,000	\$ 84,566
Total		<u>\$ 2,754,000</u>	<u>\$ 84,566</u>

**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**B. Liabilities (Continued)**

**5. Long-Term Obligations (Continued)**

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

Compensated absences for governmental activities have typically been liquidated in the General Fund.

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Net pension liability (LGERS)	\$ 60,956	\$ 32,040	\$ -	\$ 92,996	-
Total pension liability (LEO)	54,972	2,876	-	57,848	-
Governmental activity long-term liabilities	<u>\$ 115,928</u>	<u>\$ 34,916</u>	<u>\$ -</u>	<u>\$ 150,844</u>	<u>\$ -</u>
Business-type activities:					
Water and Sewer Fund					
Capital lease	\$ 6,313	\$ -	\$ 6,313	\$ -	\$ -
Bond anticipation note	-	2,754,000	-	2,754,000	2,754,000
State reserve loan	-	277,732	-	277,732	-
Business activity long-term liabilities	<u>\$ 6,313</u>	<u>\$ 3,031,732</u>	<u>\$ 6,313</u>	<u>\$ 3,031,732</u>	<u>\$ 2,754,000</u>

The Town has a legal debt margin of \$11,721,657.

**C. Net Investment in Capital Assets**

	Governmental	Business-type
Capital assets	\$ 1,625,221	\$ 4,108,646
add: unexpended bond proceeds	-	2,754,000
less: long-term debt	-	(3,031,732)
Net investment in capital asset	<u>\$ 1,625,221</u>	<u>\$ 3,830,914</u>



**TOWN OF SPARTA, NORTH CAROLINA**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Fiscal Year Ended June 30, 2019**

**Note II. Detail Notes on All Funds (Continued)**

**D. Fund Balance**

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

Total fund balance - General Fund	\$ 1,710,929
Less:	
Stabilization by State Statute	183,323
Streets - Powell Bill	113,776
Health Benefits	116,634
Remaining Fund Balance	1,297,196

**Note III. Jointly Governed Organization**

The Town, in conjunction with seven counties and nineteen other municipalities established the High Country Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$510 to the Council during the fiscal year ended June 30, 2019.

The Town, in conjunction with a North Carolina county and two other local governments located in the state of Virginia, is a member of the Virginia/Carolina Water Authority. The Authority was formed to finance, construct, own and operate a regional water treatment facility. Each participating government appoints two representatives to the Water Authority's governing board. The four members have signed an agreement to be a participant in the water facility. The total cost of the water treatment facility was approximately \$9.4 million. The Town of Sparta's pro-rata share of the facility cost and pro-rata share of the operating cost of the plant will be funded by user charges over forty years.

**Note IV. Federal and State Assisted Programs**

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

**Note V. Economic Dependence**

Approximately 30% of water and sewer billings during the year ended June 30, 2019 were to Magnolia Manufacturing, which is the single largest water customer of the Town. The Town receives significant state franchise tax reimbursements on the electric power usage from this industry.

**Note VI. Subsequent Events**

Subsequent events have been evaluated through November 20, 2019, which is the date the financial statements were available to be issued.

**REQUIRED SUPPLEMENTAL FINANCIAL DATA**

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

**Local Government Employees' Retirement System**

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Sparta's proportion of the net pension liability (asset) (%)	0.00392%	0.00399%	0.00428%	0.00408%	0.00468%	0.00310%
Sparta's proportion of the net pension liability (asset) (\$)	\$ 92,996	\$ 60,956	\$ 90,836	\$ 18,311	\$ (27,600)	\$ 37,367
Sparta's covered-employee payroll	\$ 227,168	\$ 216,744	\$ 216,700	\$ 209,151	\$ 224,754	\$ 206,417
Sparta's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	40.94%	28.12%	41.92%	8.75%	( 12.28%)	18.10%
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 for all participant employers in the LGERS plan.

**Town of Sparta, North Carolina  
Town of Sparta's Contributions  
Required Supplementary Information  
Last Six Fiscal Years**

**Local Government Employees' Retirement System**

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 17,814	\$ 17,546	\$ 16,938	\$ 15,748	\$ 15,251	\$ 15,917
Contributions in relation to the contractually required contribution	17,814	17,546	16,938	15,748	15,251	15,917
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Sparta's covered-employee payroll	\$ 221,489	\$ 227,168	\$ 216,744	\$ 216,700	\$ 209,151	\$ 224,754
Contributions as a percentage of covered- employee payroll	8.04%	7.72%	7.81%	7.27%	7.29%	7.08%

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

	2019	2018	2017
Beginning balance	\$ 54,972	\$ 55,332	\$ 57,235
Service Cost	6,333	5,082	6,369
Interest on the total pension liability	1,540	1,962	1,882
Changes of benefit terms	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	11,331	(2,057)	-
Changes of assumptions or other inputs	(3,829)	3,678	(1,129)
Benefit payments	(12,499)	(9,025)	(9,025)
Other changes	-	-	-
Ending balance of the total pension liability	<u>\$ 57,848</u>	<u>\$ 54,972</u>	<u>\$ 55,332</u>

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

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

	<u>2019</u>		<u>2018</u>		<u>2017</u>
Total pension liability	\$ 57,848	\$	54,972	\$	55,332
Covered payroll	214,225		227,209		261,112
Total pension liability as a percentage of covered payroll	27.00%		24.19%		21.19%

Notes to the schedules:

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

**INDIVIDUAL FUND SCHEDULES**

**TOWN OF SPARTA, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2019**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Ad valorem taxes:			
Taxes	\$	\$ 571,852	\$
Penalties and interest		2,724	
Total	538,446	574,576	36,130
Other taxes and licenses:			
Privilege licenses		865	
Total	600	865	265
Unrestricted intergovernmental:			
Local option sales taxes		524,202	
Telecommunications sales tax		16,561	
Utilities sales tax		253,926	
Video franchise fee		7,428	
Beer and wine tax		7,803	
Other reimbursements		10,284	
Police property & drug reimbursement		96	
ABC profit distribution		21,127	
Total	776,250	841,427	65,177
Restricted intergovernmental:			
Powell Bill allocation		58,380	
ABC Revenue for law enforcement		4,695	
Solid waste disposal tax		1,261	
Total	60,635	64,336	3,701
Sales and services:			
Garbage collection fees		107,252	
Recreation department fees		954	
Total	111,696	108,206	(3,490)
Investment earnings	2,800	5,274	2,474
Miscellaneous:			
Rent income		28,240	
Sale of property		-	
Other		7,696	
Total	35,740	35,936	196
Total revenues	1,526,167	1,630,620	104,453

(continued)



**TOWN OF SPARTA, NORTH CAROLINA  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2019**

	Budget	Actual	Variance Positive (Negative)
<b>Expenditures:</b>			
General government:			
Salaries and employee benefits		12,918	
Professional services		55,023	
Total		67,941	
Administration:			
Salaries and employee benefits		298,350	
Other operating expenditures		36,409	
Total		334,759	
Public buildings:			
Utilities		66,633	
Other operating expenditures		13,290	
Insurance		24,781	
Total		104,704	
Total general government	566,671	507,404	59,267
Public safety:			
Police:			
Salaries and employee benefits		344,607	
Contract labor - dispatcher		48,300	
Other operating expenditures		65,206	
Capital outlay		32,925	
Total		491,038	
Fire:			
Other operating expenditures		30,346	
Total public safety	556,170	521,384	34,786
Transportation:			
Streets and highways:			
Contracted services		28,328	
Capital outlay		-	
Total transportation	57,635	28,328	29,307
Economic development:			
Other expenditures		16,972	
Capital outlay		72,389	
Total economic development	116,589	89,361	27,228

(continued)

**TOWN OF SPARTA, NORTH CAROLINA**  
**GENERAL FUND**  
**SCHEDULE OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES - BUDGET AND ACTUAL**  
**FOR THE YEAR ENDED JUNE 30, 2019**

	Budget	Actual	Variance Positive (Negative)
Environmental protection:			
Solid waste:			
Contracted services		85,758	
Other operating expenditures		10,980	
Total environmental protection	104,775	96,738	8,037
Culture and recreation:			
Parks and recreation:			
Other operating expenditures		26,619	
Total		26,619	
Community Projects:			
Main Street Program		22,202	
Chamber of Commerce		15,407	
Jaycees Fireworks		3,000	
Rescue Squad		5,000	
Alleghany County Hospital		7,000	
Alleghany Wellness		6,000	
Other projects		6,500	
Total		65,109	
Libraries:			
Contribution to regional library		9,500	
Total culture and recreation	113,950	101,228	12,722
Contingency	10,377	-	10,377
Debt service:			
Principal retirement	-	-	-
Interest and other charges	-	-	-
Total debt service	-	-	-
Total expenditures	1,526,167	1,344,443	181,724
Revenues over (under) expenditures	-	286,177	286,177
Other financing sources (uses):			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Total other financing sources (uses)	-	-	-
Fund balance appropriated	-	-	-
Net change in fund balance	\$ -	286,177	\$ 286,177
Fund balances, beginning		1,424,752	
Fund balances, ending		\$ 1,710,929	

**TOWN OF SPARTA, NORTH CAROLINA  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2019**

	<b>Cemetery Care Fund</b>	<b>Total Non-major Governmental Funds</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 167,186	\$ 167,186
Total assets	<u>\$ 167,186</u>	<u>\$ 167,186</u>
 <b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts payable and accrued liabilities	<u>\$ -</u>	<u>\$ -</u>
Total liabilities	<u>-</u>	<u>-</u>
 Fund balances:		
Non-spendable-Perpetual		
Maintenance	167,186	167,186
Total fund balances	<u>167,186</u>	<u>167,186</u>
Total liabilities and fund balances	<u>\$ 167,186</u>	<u>\$ 167,186</u>

**TOWN OF SPARTA, NORTH CAROLINA  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2019**

	<b>Cemetery Care Fund</b>	<b>Total Non-major Governmental Funds</b>
<b>REVENUES</b>		
Investment earnings	\$ 252	\$ 252
Total revenues	<u>252</u>	<u>252</u>
<b>EXPENDITURES</b>		
Economic development	-	-
Total expenditures	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>252</u>	<u>252</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers from other funds:		
General Fund	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>
Revenues over expenditures	252	252
Fund balance, beginning	<u>166,934</u>	<u>166,934</u>
Fund balance, ending	<u><u>\$ 167,186</u></u>	<u><u>\$ 167,186</u></u>

**TOWN OF SPARTA, NORTH CAROLINA  
WATER AND SEWER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2019**

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Operating revenues:			
Water charges	\$	\$ 866,072	\$
Sewer charges		450,478	
Water and sewer taps		3,500	
Other operating revenues		61,737	
Total operating revenues	<u>1,350,509</u>	<u>1,381,787</u>	<u>31,278</u>
Nonoperating revenues:			
Interest earnings	-	3,910	3,910
Total nonoperating revenues	<u>-</u>	<u>3,910</u>	<u>3,910</u>
Total revenues	<u>1,350,509</u>	<u>1,385,697</u>	<u>35,188</u>
<b>Expenditures:</b>			
Water:			
Salaries		187,808	
Employee benefits		63,180	
Utilities		71,127	
Water authority		327,824	
Plant and equipment maintenance		99,152	
Laboratory fees		2,010	
Professional services		32,214	
Automotive supplies		1,730	
Supplies and materials		59,286	
Uniforms		5,957	
Insurance and bonds		25,616	
Other operating expenditures		48,721	
Total water operations	<u>945,723</u>	<u>924,625</u>	<u>21,098</u>
Sewer:			
Salaries		102,639	
Employee benefits		29,730	
Utilities		58,706	
Plant and equipment maintenance		48,368	
Laboratory fees		11,647	
Professional services		25,360	
Supplies and chemicals		55,041	
Other operating expenditures		19,200	
Total sewer operations	<u>391,686</u>	<u>350,691</u>	<u>40,995</u>
Debt Service:			
Loan costs		5,900	
Interest and other charges		67	
Principal retirement		6,314	
Total debt service	<u>13,100</u>	<u>12,281</u>	<u>819</u>

(continued)

**TOWN OF SPARTA, NORTH CAROLINA  
WATER AND SEWER FUND  
SCHEDULE OF REVENUES AND EXPENDITURES  
BUDGET AND ACTUAL (NON-GAAP)  
FOR THE YEAR ENDED JUNE 30, 2019**

	Budget	Actual	Variance Positive (Negative)
Capital outlay:			
Water equipment		-	
Sewer equipment		-	
Total capital outlay	-	-	-
Total expenditures	1,350,509	1,287,597	62,912
Revenues over (under) expenditures	-	98,100	98,100
Other financing sources (uses):			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Total other financing sources (uses)	-	-	-
Fund balance appropriated	-	-	-
Revenues over expenditures and other financing (uses)	\$ -	98,100	\$ 98,100

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

Reconciling items:	
Principal retirement	6,314
Depreciation	(133,147)
Capital contributions	72,915
Transfer to water and sewer capital projects fund	-
Total	(53,918)
Change in net position	\$ 44,182

**TOWN OF SPARTA, NORTH CAROLINA**  
**WATER AND SEWER CAPITAL PROJECTS FUND - CRESTVIEW PUMP STATION**  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)**  
**FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues - Crestview Booster Pump Station and Water System Improvements:					
Division of Water Infrastructure SRP Loan	\$ 685,406	\$ -	\$ 277,732	\$ 277,732	\$ (407,674)
Division of Water Infrastructure SRP Grant	150,000	19,662	72,915	92,577	(57,423)
Total revenues	<u>835,406</u>	<u>19,662</u>	<u>350,647</u>	<u>370,309</u>	<u>(465,097)</u>
Expenditures - Crestview Booster Pump Station and Water System Improvements:					
Construction	708,406	-	293,541	293,541	414,865
Administration	127,000	80,256	22,659	102,915	24,085
Total expenditures	<u>835,406</u>	<u>80,256</u>	<u>316,200</u>	<u>396,456</u>	<u>438,950</u>
Revenues over (under) expenditures	<u>-</u>	<u>(60,594)</u>	<u>34,447</u>	<u>(26,147)</u>	<u>(26,147)</u>
Other financing sources :					
Tranfers from other funds:					
From Water and Sewer Fund	-	76,991	-	76,991	76,991
Total other sources	<u>-</u>	<u>76,991</u>	<u>-</u>	<u>76,991</u>	<u>76,991</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 16,397</u>	<u>\$ 34,447</u>	<u>\$ 50,844</u>	<u>\$ 50,844</u>

**TOWN OF SPARTA, NORTH CAROLINA**  
**WATER AND SEWER CAPITAL PROJECTS FUND - WATER LINE REPLACEMENT**  
**SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)**  
**FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2019**

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues - Water Line Replacement Project and Water System Improvements:					
USDA Rural Development grant	\$ 1,452,000	\$ -	\$ -	\$ -	\$ (1,452,000)
Appalachian Regional Commission grant	295,000	-	-	-	(295,000)
NC DOT Municipal Agreement	500,000	-	-	-	(500,000)
Total revenues	<u>2,247,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(2,247,000)</u>
Expenditures - Water Line Replacement Project					
Construction	4,192,000	-	-	-	4,192,000
Engineering	383,020	-	-	-	383,020
Legal and right of way	167,810	-	-	-	167,810
Construction interest	147,070	-	-	-	147,070
Contingency	210,100	-	-	-	210,100
Total expenditures	<u>5,100,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,100,000</u>
Revenues over (under) expenditures	<u>(2,853,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,853,000</u>
Other financing sources :					
Tranfers from other funds:					
From Water and Sewer Fund	99,000	-	-	-	(99,000)
Bond Anticipation note	2,754,000	-	2,754,000	2,754,000	-
Total other sources	<u>2,853,000</u>	<u>-</u>	<u>2,754,000</u>	<u>2,754,000</u>	<u>(99,000)</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,754,000</u>	<u>\$ 2,754,000</u>	<u>\$ 2,754,000</u>



## **OTHER SCHEDULES**

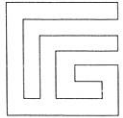
**TOWN OF SPARTA, NORTH CAROLINA**  
**SCHEDULE OF AD VALOREM TAXES RECEIVABLE**  
**JUNE 30, 2019**

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2018</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2019</u>
2018-2019	\$ -	\$ 569,971	\$ 558,401	\$ 11,570
2017-2018	13,869	-	11,057	2,812
2016-2017	1,476	-	945	531
2015-2016	975	-	-	975
2014-2015	791	-	-	791
2013-2014	1,058	-	29	1,029
2012-2013	1,072	-	18	1,054
2011-2012	931	-	21	910
2010-2011	1,034	-	202	832
2009-2010	813	-	120	693
2008-2009	847	-	847	-
	<u>\$ 22,866</u>	<u>\$ 569,971</u>	<u>\$ 571,640</u>	<u>21,197</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>14,970</u>
Ad valorem taxes receivable - net				<u>\$ 6,227</u>
<u>Reconcilement with revenues:</u>				
Ad valorem taxes - General Fund				\$ 574,576
Reconciling items:				
Interest collected				(2,724)
Discounts allowed				5,919
Adjustments				(6,978)
Taxes written off				847
Subtotal				<u>(2,936)</u>
Total collections and credits				<u>\$ 571,640</u>

**TOWN OF SPARTA, NORTH CAROLINA**  
**ANALYSIS OF CURRENT TAX LEVY**  
**TOWN-WIDE LEVY**  
**JUNE 30, 2019**

				Total Levy	
	Town - Wide			Property excluding Registered Motor Vehicles	Registered Motor Vehicles
	Property Valuation	Rate	Total Levy		
Original levy:					
Property taxed at current rate	\$ 142,885,789	0.38	\$ 542,966	\$ 490,520	\$ 52,446
Discoveries - Current and prior years	7,106,579	0.38	27,005	27,005	-
Releases	-	0.38	-	-	-
Total property valuation	<u>\$ 149,992,368</u>				
Net levy			569,971	517,525	52,446
Unpaid (by taxpayer) taxes at June 30, 2019			<u>(11,570)</u>	<u>(11,570)</u>	<u>-</u>
Current year's taxes collected			<u>\$ 558,401</u>	<u>\$ 505,955</u>	<u>\$ 52,446</u>
Current levy collection percentage			<u>97.97%</u>	<u>97.76%</u>	<u>100.00%</u>

## COMPLIANCE SECTION



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregated remaining fund information of the Town of Sparta, North Carolina, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprises the Town of Sparta's basic financial statements, and have issued our report thereon dated November 20, 2019. Our report includes a reference to other auditors who audited the financial statements of the Town of Sparta ABC Board, as described in our report on the Town of Sparta's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Town of Sparta ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Sparta'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 Sparta'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 limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2019-1 to be a material weakness.

#### Compliance and Other Matters

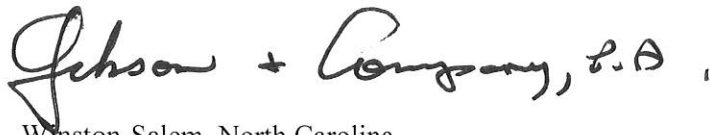
As part of obtaining reasonable assurance about whether the Town of Sparta's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material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

#### Town of Sparta's Response to Findings

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

#### Purpose of this Report

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

A handwritten signature in black ink that reads "Johnson + Company, P.A." with a stylized flourish at the end.

Winston-Salem, North Carolina  
November 20, 2019

**TOWN OF SPARTA, NORTH CAROLINA  
SCHEDULE OF FINDINGS AND RESPONSES  
For the Fiscal Year Ended June 30, 2019**

**Financial Statement Findings**

2019-1 Segregation of Duties

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

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

Effect: Transactions could be mishandled.

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

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2018-1.

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

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

Name of contact person: Bryan Edwards, Town Manager

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

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