

TOWN OF WALKERTOWN, NORTH CAROLINA

FINANCIAL STATEMENTS

June 30, 2019

TOWN OF WALKERTOWN, NORTH CAROLINA

FINANCIAL STATEMENTS

June 30, 2019

**TOWN OF WALKERTOWN, NORTH CAROLINA
JUNE 30, 2018**

MEMBERS OF TOWN COUNCIL

Kenneth Davis, Mayor
Wesley Hutchins, Mayor Pro-Tem
Peggy Leight
Marilyn Martin

ADMINISTRATIVE AND FINANCIAL STAFF

Scott Snow, Town Manager
Rusty Sawyer, Town Clerk

Town of Walkertown, North Carolina
Table of Contents
June 30, 2019

<u>Exhibit</u>		<u>Page</u>
	Financial Section:	
	Independent Auditor's Report	1-2
	Management's Discussion and Analysis	3-12
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position	13
2	Statement of Activities	14
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds	15
4	Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	16-17
5	Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	18
6	Statement of Fund Net Position – Proprietary Fund	19
7	Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	20
8	Statement of Cash Flows – Proprietary Fund	21-22
	Notes to the Financial Statements	23-44
	Required Supplemental Financial Data:	
	Schedule of the Proportionate Share of the Net Pension Liability (Asset) – Local Government Employees' Retirement System	45
	Schedule of Contributions – Local Government Employees' Retirement System	46

	<u>Page</u>
Individual Fund Schedules:	
Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund	47-48
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP) - Sewer Fund	49
Other Schedules:	
Schedule of Ad Valorem Taxes Receivable	50
Analysis of Current Tax Levy – Town-Wide Levy	51
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 <i>Government Auditing Standards</i>	52-53
Schedule of Findings and Responses	54

FINANCIAL SECTION



GIBSON & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditor's Report

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

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order 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 opinion.

Opinion

In our opinion, based on our audit the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, and each major fund of the Town of Walkertown, 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 3 through 12, the Local Government Employees' Retirement System's Schedules of Proportionate Share of the Net Pension Liability (Asset) and Contributions on pages 45 and 46, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.


Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Walkertown, North Carolina. The 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 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. In our opinion, based on our audit, the procedures performed as described above, the 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 December 18, 2019 on our consideration of Town of Walkertown'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 Walkertown's internal control over financial reporting and compliance.



Winston-Salem, North Carolina
December 18, 2019

Management Discussion and Analysis

Town of Walkertown Management's Discussion and Analysis

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

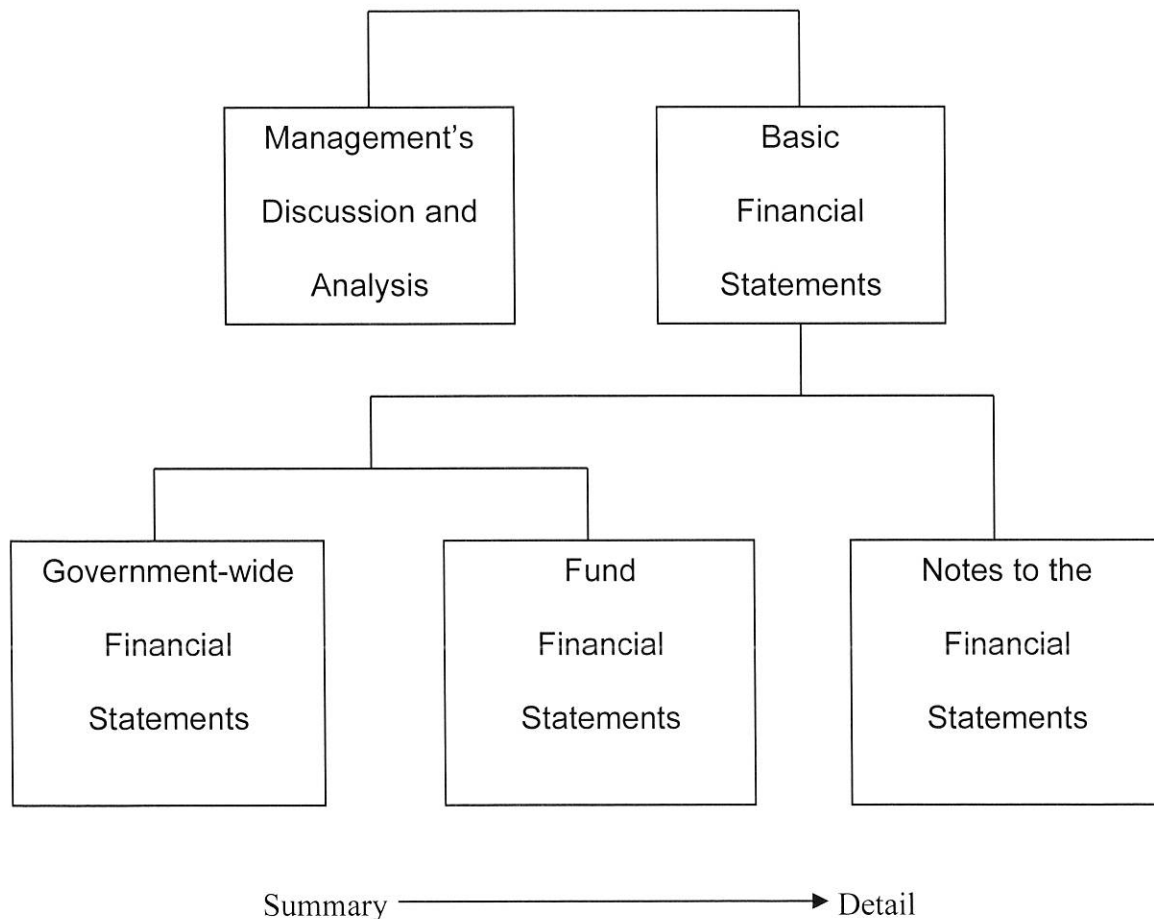
- The assets and deferred outflows of resources of the Town of Walkertown exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$9,172,556 (*net position*).
- The government's total net position increased by \$169,452, primarily due to increases in the governmental and business-type activities net position.
- As of the close of the current fiscal year, the Town of Walkertown's governmental funds reported combined ending fund balances of \$4,810,072 with a net change of \$325,967 in fund balance. Approximately 23.52% of this total amount, or \$1,131,344, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$3,678,728, or 176.68% of total general fund expenditures for the fiscal year.
- The Town of Walkertown's total debt decreased by \$486,587 (62.22%) during the current fiscal year. The key factor in this decrease was the payments on the sewer system loan.

Overview of the Financial Statements

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

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.

Government-wide Financial Statements

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

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

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

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 Walkertown, 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 Walkertown 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.

Management Discussion and Analysis
Town of Walkertown

The Town of Walkertown adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Council about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the 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 Fund – Town of Walkertown has a proprietary fund. The Enterprise Fund is used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Walkertown uses the enterprise fund to account for its 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 23 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 Walkertown's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 45 of this report.

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

Management Discussion and Analysis
Town of Walkertown

Government-Wide Financial Analysis

Town of Walkertown's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2019	2018	2019	2018	2019	2018
Current and other assets	\$ 4,968,154	\$ 4,597,519	\$ 456,225	\$ 960,225	\$ 5,424,379	\$ 5,557,744
Capital assets	4,146,610	4,293,731	-	-	4,146,610	4,293,731
Deferred outflows of resources	30,680	20,594	-	-	30,680	20,594
Total assets and deferred outflows of resources	9,145,444	8,911,844	456,225	960,225	9,601,669	9,872,069
Long-term liabilities outstanding	47,623	30,210	49,567	481,958	97,190	512,168
Other liabilities	133,467	84,054	198,257	272,025	331,724	356,079
Deferred inflows of resources	199	718	-	-	199	718
Total liabilities and deferred inflows of resources	181,289	114,982	247,824	753,983	429,113	868,965
Net position:						
Net investment in capital assets	4,146,610	4,293,731	-	-	4,146,610	4,293,731
Restricted	1,131,344	1,072,087	-	-	1,131,344	1,072,087
Unrestricted	3,686,201	3,431,044	208,401	206,242	3,894,602	3,637,286
Total net position	\$ 8,964,155	\$ 8,796,862	\$ 208,401	\$ 206,242	\$ 9,172,556	\$ 9,003,104

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 Walkertown exceeded liabilities and deferred inflows by \$9,172,556 as of June 30, 2019. The Town's net position increased by \$169,452 for the fiscal year ended June 30, 2019. However, the largest portion (45.21%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Walkertown uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Walkertown'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 Walkertown's net position \$1,131,344 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$3,894,602 is unrestricted.

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

- The Town continues to maintain a tax collection percentage of 99.02%, which is comparable to the statewide average of 98.78%

Management Discussion and Analysis
Town of Walkertown

Town of Walkertown's Changes in Net Position
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Revenues:						
Program revenues:						
Operating grants and contributions	\$ 181,900	\$ 172,959	\$ -	\$ -	\$ 181,900	\$ 172,959
Capital grants and contributions	-	-	-	-	-	-
General revenues:						
Property taxes	946,789	898,867	-	-	946,789	898,867
Other taxes	665,075	633,799	-	-	665,075	633,799
Grants and contributions not restricted to specific programs	-	-	-	-	-	-
Other	105,598	59,766	-	246,302	105,598	306,068
Total revenues	1,899,362	1,765,391	-	246,302	1,899,362	2,011,693
Expenses:						
Council	60,239	57,598	-	-	60,239	57,598
Administration	508,122	440,449	-	-	508,122	440,449
Public service	814,552	811,123	-	-	814,552	811,123
Public works	90,454	102,091	-	-	90,454	102,091
Streets	133,887	63,139	-	-	133,887	63,139
Recreation and development	118,339	117,721	-	-	118,339	117,721
Sewer	-	-	4,317	14,752	4,317	14,752
Total expenses	1,725,593	1,592,121	4,317	14,752	1,729,910	1,606,873
Increase in net position before transfers	173,769	173,270	(4,317)	231,550	169,452	404,820
Transfers	(6,476)	2,158	6,476	(2,158)	-	-
Increase in net position	167,293	175,428	2,159	229,392	169,452	404,820
Net position, beginning	8,796,862	8,621,434	206,242	(23,150)	9,003,104	8,598,284
Net position, ending	\$ 8,964,155	\$ 8,796,862	\$ 208,401	\$ 206,242	\$ 9,172,556	\$ 9,003,104

Town of Walkertown

Governmental activities. Governmental activities increased the Town's net position by \$167,293, thereby accounting for 98.73% of the total growth in the net position of the Town of Walkertown.

Business-type activities: Business-type activities increased the Town of Walkertown's net position by \$2,159 accounting for 1.27% of the total growth in the government's net position. This increase is attributed from the addition of revenues from City-County Utilities for multiplier of sewer charges.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Walkertown. At the end of the current fiscal year, the Town of Walkertown's fund balance available in the General Fund was \$3,678,728 while total fund balance reached \$4,810,072. The Town currently has an available fund balance of 176.68% of general fund expenditures while total fund balance represents 231.02% of that same amount.

At June 30, 2019, the governmental funds of the Town of Walkertown reported a combined fund balance of \$4,810,072 with a net increase in fund balance of \$325,967. Included in this change in fund balance is an increase in the General Fund.

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

With expenditures held in check, the Town was able to substantially comply with its budgetary requirements.

Management Discussion and Analysis
Town of Walkertown

Proprietary Funds. The Town of Walkertown's proprietary fund provides the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Sewer Fund at the end of the fiscal year amounted to \$208,401. The total change in net position for the fund was \$2,159. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Walkertown's investment in capital assets for its governmental and business-type activities as of June 30, 2019, totals \$4,293,731 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

- There were no capital asset additions during the year.

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

Figure 4

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Land	\$ 1,006,875	\$ 1,006,875	\$ -	\$ -	\$ 1,006,875	\$ 1,006,875
Buildings and systems	646,111	689,245	-	-	646,111	689,245
Park	1,236,817	1,290,465	-	-	1,236,817	1,290,465
Equipment	2,095	3,771	-	-	2,095	3,771
Vehicles and motorized equipment	-	-	-	-	-	-
Construction in progress	2,650	2,650	-	-	2,650	2,650
Infrastructure	1,252,062	1,300,725	-	-	1,252,062	1,300,725
Total	\$ 4,146,610	\$ 4,293,731	\$ -	\$ -	\$ 4,146,610	\$ 4,293,731

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

Management Discussion and Analysis
Town of Walkertown

Long-term Debt. As of June 30, 2019, the Town of Walkertown had total debt outstanding of \$782,034. This is backed by the full faith and credit of the Town.

Town of Walkertown's Outstanding Liabilities

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2019	2018	2019	2018	2019	2018
Compensated absences	\$ 9,191	\$ 4,850	\$ -	\$ -	\$ 9,191	\$ 4,850
Net pension liability	38,432	25,360	-	-	38,432	25,360
Construction advances	-	-	247,824	247,824	247,824	247,824
Promissory note	-	-	-	504,000	-	504,000
	<u>\$ 47,623</u>	<u>\$ 30,210</u>	<u>\$ 247,824</u>	<u>\$ 751,824</u>	<u>\$ 295,447</u>	<u>\$ 782,034</u>

Town of Walkertown's Outstanding Debt

The Town of Walkertown's total debt decreased by \$486,587 (62.22%) during the past fiscal year.

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 Walkertown is \$37,491,776.

Additional information regarding the Town of Walkertown'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:

- Walkertown's fund balances have remained relatively stable over the years, which is a good gauge of the General Fund's liquidity.

Management Discussion and Analysis
Town of Walkertown

Budget Highlights for the Fiscal Year Ending June 30, 2020

Governmental Activities: The tax rate for Walkertown remains at \$.20 per \$100 valuation. A portion of this \$.20 property tax rate pays for Walkertown fire services.

The Town is making major changes within its limits by installing sidewalks along various roads and planning for expansion of parks and recreation services.

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:

Scott Snow, Town Manager
P.O. Box 39
Walkertown, NC 27051
<http://townofwalkertown.us>
scottsnow@triad.rr.com
336-595-4212

Basic Financial Statements

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

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 3,817,195	\$ -	\$ 3,817,195
Taxes receivables (net)	24,615	-	24,615
Other receivables (net)	-	451,225	451,225
Due from other governments	139,715	-	139,715
Internal balances	(5,000)	5,000	-
Restricted cash and cash equivalents	991,629	-	991,629
Total current assets	<u>4,968,154</u>	<u>456,225</u>	<u>5,424,379</u>
Non-current assets:			
Capital assets:			
Land, non-depreciable improvements, and construction in progress	1,009,525	-	1,009,525
Other capital assets, net of depreciation	3,137,085	-	3,137,085
Total capital assets	<u>4,146,610</u>	<u>-</u>	<u>4,146,610</u>
Total assets	<u>9,114,764</u>	<u>456,225</u>	<u>9,570,989</u>
DEFERRED OUTFLOWS OF RESOURCES			
Pension deferrals	30,680	-	30,680
Total deferred outflows of resources	<u>30,680</u>	<u>-</u>	<u>30,680</u>
LIABILITIES			
Current liabilities:			
Accounts payable	133,467	-	133,467
Accrued interest payable	-	-	-
Current portion of long-term liabilities	-	198,257	198,257
Total current liabilities	<u>133,467</u>	<u>198,257</u>	<u>331,724</u>
Long-term liabilities:			
Net pension liability	38,432	-	38,432
Due in more than one year	9,191	49,567	58,758
Total liabilities	<u>181,090</u>	<u>247,824</u>	<u>428,914</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	199	-	199
Total deferred inflows of resources	<u>199</u>	<u>-</u>	<u>199</u>
NET POSITION			
Net investment in capital assets	4,146,610	-	4,146,610
Restricted for:			
Stabilization by State Statute	139,715	-	139,715
Culture and recreation	225,297	-	225,297
Streets	766,332	-	766,332
Unrestricted	3,686,201	208,401	3,894,602
Total net position	<u>\$ 8,964,155</u>	<u>\$ 208,401</u>	<u>\$ 9,172,556</u>

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

Town of Walkertown, North Carolina
Statement of Activities
For the Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
Governmental Activities:							
Council	\$ 60,239	\$ -	\$ -	\$ -	\$ (60,239)	\$ -	\$ (60,239)
Administration	508,122	-	-	-	(508,122)	-	(508,122)
Public service	814,552	-	-	-	(814,552)	-	(814,552)
Public works	90,454	-	3,737	-	(86,717)	-	(86,717)
Streets	133,887	-	132,695	-	(1,192)	-	(1,192)
Recreation and development	118,339	-	45,468	-	(72,871)	-	(72,871)
Total governmental activities	1,725,593	-	181,900	-	(1,543,693)	-	(1,543,693)
Business-type activities:							
Sewer	4,317	-	-	-	-	(4,317)	(4,317)
Total business-type activities	4,317	-	-	-	-	(4,317)	(4,317)
Total government	\$ 1,729,910	\$ -	\$ 181,900	\$ -	(1,543,693)	(4,317)	(1,548,010)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					946,789	-	946,789
Other taxes					665,075	-	665,075
Unrestricted Investment earnings					93,423	-	93,423
Multiplier of sewer charges					-	-	-
Miscellaneous					12,175	-	12,175
Total general revenues not including transfers					1,717,462	-	1,717,462
Transfers					(6,476)	6,476	-
Total general revenues and transfers					1,710,986	6,476	1,717,462
Change in net position					167,293	2,159	169,452
Net position, beginning					8,796,862	206,242	9,003,104
Net position, ending					\$ 8,964,155	\$ 208,401	\$ 9,172,556

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

Exhibit 3

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

	Major Fund	
	General	Total Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 3,817,195	\$ 3,817,195
Restricted cash	991,629	991,629
Receivables, net:		
Taxes	24,615	24,615
Due from other governments	139,715	139,715
Total assets	<u>4,973,154</u>	<u>4,973,154</u>
LIABILITIES		
Accounts payable and accrued liabilities	133,467	133,467
Due to other funds	5,000	5,000
Total liabilities	<u>138,467</u>	<u>138,467</u>
DEFERRED INFLOWS OF RESOURCES		
Property taxes receivable	24,615	24,615
Total deferred inflows of resources	<u>24,615</u>	<u>24,615</u>
FUND BALANCES		
Restricted		
Stabilization by State Statute	139,715	139,715
Culture and recreation	225,297	225,297
Streets	766,332	766,332
Assigned		
Subsequent year's expenditures	-	-
Unassigned	3,678,728	3,678,728
Total fund balances	<u>4,810,072</u>	<u>4,810,072</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 4,973,154</u>	

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

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

Gross capital assets at historical cost	\$ 5,323,545	
Accumulated depreciation	<u>(1,176,935)</u>	4,146,610
Deferred outflows of resources related to pensions are not reported in the funds		30,680
Earned revenues considered deferred inflows of resources in fund statements.		24,615
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds		
Net pension liability		(38,432)
Deferred inflows of resources related to pensions are not reported in the funds		(199)
Other long-term liabilities (compensated absences) are not due and payable in the current period and therefore are not reported in the funds.		<u>(9,191)</u>

Net position of governmental activities	<u>\$ 8,964,155</u>
---	---------------------

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

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

	Major Fund		Total Governmental Funds
	General Fund		
REVENUES			
Ad valorem taxes	\$ 951,534	\$	951,534
Other taxes and licenses	-		-
Unrestricted intergovernmental	665,075		665,075
Restricted intergovernmental	181,900		181,900
Investment earnings	93,423		93,423
Miscellaneous	12,174		12,174
Total revenues	<u>1,904,106</u>		<u>1,904,106</u>
EXPENDITURES			
Current:			
Council	60,239		60,239
Administration	471,888		471,888
Public service	785,128		785,128
Public works	61,030		61,030
Streets	104,463		104,463
Recreation and development	88,915		88,915
Contingency	-		-
Total expenditures	<u>1,571,663</u>		<u>1,571,663</u>
Excess (deficiency) of revenues over expenditures	<u>332,443</u>		<u>332,443</u>
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	504,000		504,000
Transfers to other funds	(510,476)		(510,476)
Total other financing sources (uses)	<u>(6,476)</u>		<u>(6,476)</u>
Net change in fund balance	325,967		325,967
Fund balances, beginning	4,484,105		4,484,105
Fund balances, ending	<u>\$ 4,810,072</u>	\$	<u>4,810,072</u>

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

Town of Walkertown, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
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		\$ 325,967
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 outlays in the current period.		
Capital outlay expenditures which were capitalized	\$ -	
Depreciation expense for governmental assets	<u>(147,121)</u>	(147,121)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		8,571
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		(4,745)
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences		(4,341)
Pension expense		<u>(11,038)</u>
Total changes in net position of governmental activities		<u><u>\$ 167,293</u></u>

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

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

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 907,575	\$ 907,575	\$ 951,534	\$ 43,959
Other taxes and licenses	-	-	-	-
Unrestricted intergovernmental	631,800	631,800	665,075	33,275
Restricted intergovernmental	970,400	970,400	181,900	(788,500)
Investment earnings	38,200	38,700	93,423	54,723
Miscellaneous	8,000	7,500	12,174	4,674
Total revenues	2,555,975	2,555,975	1,904,106	(651,869)
Expenditures:				
Current:				
Council	73,790	73,790	60,239	13,551
Administration	321,134	548,434	471,888	76,546
Public service	818,061	818,061	785,128	32,933
Public works	132,090	132,090	61,030	71,060
Streets	1,090,300	863,000	104,463	758,537
Recreation and development	120,600	120,600	88,915	31,685
Contingency	-	-	-	-
Total expenditures	2,555,975	2,555,975	1,571,663	984,312
Revenues over (under) expenditures	-	-	332,443	332,443
Other financing sources (uses):				
Transfers from other funds	510,476	510,476	504,000	(6,476)
Transfers to other funds	(510,476)	(510,476)	(510,476)	-
Total other financing sources (uses)	-	-	(6,476)	(6,476)
Fund balance appropriated	-	-	-	-
Net change in fund balance	\$ -	\$ -	325,967	\$ 325,967
Fund balances, beginning			4,484,105	
Fund balances, ending			<u>\$ 4,810,072</u>	

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

Town of Walkertown, North Carolina
Statement of Fund Net Position
Proprietary Fund
June 30, 2019

	Major Enterprise Fund	
	Sewer Fund	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ -	\$ -
Due from other funds	5,000	5,000
Due from CCUC	451,225	451,225
Total current assets	456,225	456,225
Total assets	<u>\$ 456,225</u>	<u>\$ 456,225</u>
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	\$ -	\$ -
Construction advances - current	198,257	198,257
Intergovernmental loan payable - current	-	-
Total current liabilities	<u>198,257</u>	<u>198,257</u>
Noncurrent liabilities:		
Construction advances - noncurrent	49,567	49,567
Intergovernmental loan payable - noncurrent	-	-
Total noncurrent liabilities	<u>49,567</u>	<u>49,567</u>
Total liabilities	<u>247,824</u>	<u>247,824</u>
NET POSITION		
Net investment in capital assets	-	-
Unrestricted	208,401	208,401
Total net position	<u>\$ 208,401</u>	<u>\$ 208,401</u>

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

Town of Walkertown, North Carolina
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2019

	Major Enterprise Fund	
	Sewer Fund	Total
OPERATING REVENUES		
Charges for services	\$ -	\$ -
Sewer taps	-	-
Other operating revenues	-	-
Total operating revenues	-	-
OPERATING EXPENSES		
Administration	-	-
Finance	-	-
Waste collection and treatment	-	-
Depreciation	-	-
Total operating expenses	-	-
Operating income (loss)	-	-
NONOPERATING REVENUES (EXPENSES)		
Multiplier of sewer charges	-	-
Investment earnings	-	-
Interest and other charges	(4,317)	(4,317)
Total nonoperating revenues (expenses)	(4,317)	(4,317)
Income (loss) before contributions and transfers	(4,317)	(4,317)
Transfers from other funds	510,476	510,476
Transfers to other funds	(504,000)	(504,000)
Change in net position	2,159	2,159
Total net position, beginning	206,242	206,242
Total net position, ending	\$ 208,401	\$ 208,401

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

Town of Walkertown, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2019

	<u>Major Enterprise Fund</u>	
	<u>Sewer Fund</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ -	\$ -
Cash paid for goods and services	-	-
Cash paid to or on behalf of employees for services	-	-
Customer deposits received	-	-
Customer deposits returned	-	-
Other operating revenues	-	-
Net cash provided (used) by operating activities	<u>-</u>	<u>-</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Transfers from other funds	510,476	510,476
Transfers to other funds	(504,000)	(504,000)
Total cash flows from noncapital financing activities	<u>6,476</u>	<u>6,476</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Multiplier of sewer charges	-	-
Proceeds due from CCUC	504,000	504,000
Interest paid on loans	(6,476)	(6,476)
Principal paid on loans	(504,000)	(504,000)
Net cash provided (used) by capital and related financing activities	<u>(6,476)</u>	<u>(6,476)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest and dividends	-	-
Net increase (decrease) in cash and cash equivalents	-	-
Balance, beginning	-	-
Balance, ending	<u>\$ -</u>	<u>\$ -</u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Multiplier of sewer charges due from CCUC	<u>\$ -</u>	<u>\$ -</u>

(continued)

Town of Walkertown, North Carolina
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2019

	Major Enterprise Fund	
	Sewer Fund	Totals
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ -	\$ -
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	-	-
Changes in assets and liabilities:		
(Increase) decrease in intergovernmental receivable	-	-
(Increase) decrease in due from other funds	-	-
Increase (decrease) in accounts payable and accrued liabilities	-	-
Increase (decrease) in construction advances	-	-
Total adjustments	-	-
Net cash provided by operating activities	\$ -	\$ -

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

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

I. Summary of Significant Accounting Policies

The accounting policies of the Town of Walkertown 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 Walkertown is a municipal corporation that is governed by an elected mayor and a four-member council.

B. Basis of Presentation

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

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

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

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

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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, federal and State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town 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 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.

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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.

Sales taxes and certain intergovernmental revenues, such as the beer and wine tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of Walkertown because the tax is levied by Forsyth 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 by general revenues.

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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. 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.

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

2. Cash and Cash Equivalents

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

3. Restricted Assets

Occupancy taxes collected for the Town are classified as restricted cash because it can only be expended for culture and recreation purposes. Powell Bill funds are also classified as restricted cash because it can be expended only for the purposes outlined in G.S. 136-41.1 through 136-41.4.

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

Town of Walkertown Restricted Cash

Governmental Activities

General Fund

	Culture and recreation	\$	225,297
	Streets		766,332
Total governmental activities			<u>991,629</u>
Total Restricted Cash		\$	<u>991,629</u>

4. Ad Valorem Taxes Receivable

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

5. Allowances for Doubtful Accounts

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

6. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, buildings, improvements, infrastructure, furniture and equipment, and vehicles, \$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.

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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

Asset Class	Estimated Useful Lives
Infrastructure	30
Buildings	25
Improvements	25
Park	30
Vehicles	5
Furniture and equipment	5 - 10

7. Deferred outflows/inflows of resources

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

8. Long-Term Obligations

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

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

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

9. Compensated Absences

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

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

10. Net Position/Fund Balances

Net Position

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

Fund Balances

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

The governmental fund types classify fund balances as follows:

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*

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

deferred revenues arising from cash receipts, as those figures stand at the close of the fiscal year next preceding the budget. Per GASB guidance, RSS is considered a resource upon which a restriction is “imposed by law through constitutional provisions or enabling legislation.” RSS is reduced by inventories and prepaids as they are classified as nonspendable. Outstanding Encumbrances are included within RSS. RSS is included as a component of Restricted Net position and Restricted fund balance on the face of the balance sheet.

Restricted for Culture and Recreation – portion of fund balance restricted by revenue source for use for culture and recreation purposes.

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

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

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

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

11. Defined Benefit Cost-Sharing Plans

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

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

II. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agent in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest-bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2019, the Town's deposits had a carrying amount of \$240,762 and a bank balance of \$267,956. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2019, the Town's petty cash fund totaled \$500.

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

2. Investments

At June 30, 2019, the Town of Walkertown had \$4,567,562 invested in the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAm by Standard and Poor's. The Town has no policy regarding credit risk.

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	\$ -
Accounts receivable	-
Total	-
Enterprise Funds	-
Total	\$ -

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

4. Capital Assets

Primary Government

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 1,006,875	\$ -	\$ -	\$ 1,006,875
Construction in progress	2,650	-	-	2,650
Total capital assets not being depreciated	1,009,525	-	-	1,009,525
Capital assets being depreciated:				
Buildings	1,086,051	-	-	1,086,051
Other improvements	18,893	-	-	18,893
Park	1,609,449	-	-	1,609,449
Furniture and equipment	91,839	-	-	91,839
Vehicles and motorized equipment	47,899	-	-	47,899
Infrastructure	1,459,889	-	-	1,459,889
Total capital assets being depreciated	4,314,020	-	-	4,314,020
Less accumulated depreciation for:				
Buildings	403,703	42,378	-	446,081
Other improvements	11,996	756	-	12,752
Park	318,984	53,648	-	372,632
Furniture and equipment	88,068	1,676	-	89,744
Vehicles and motorized equipment	47,899	-	-	47,899
Infrastructure	159,164	48,663	-	207,827
Total accumulated depreciation	1,029,814	147,121	-	1,176,935
Total capital assets being depreciated, net	3,284,206			3,137,085
Governmental activity capital assets, net	\$ 4,293,731			\$ 4,146,610

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

Council	\$ -
Administration	29,425
Public service	29,424
Public works	29,424
Streets	29,424
Recreation and development	29,424
Total depreciation expense	<u>\$ 147,121</u>

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Walkertown 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.

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 Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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 Walkertown 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 Walkertown's contractually required contribution rate for the year ended June 30, 2019, was 7.75% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Walkertown were \$8,571 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 \$38,432 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 asset was determined by an actuarial valuation as of December 31, 2017. The total pension liability was then rolled forward to the measurement date of June 30, 2018 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2018, the Town's proportion was 0.00162%, which was a 0.00004% change from its proportion measured as of June 30, 2017.

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

For the year ended June 30, 2019, the Town recognized pension expense of \$11,038. At June 30, 2019, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 5,929	\$ 199
Changes of assumptions	10,198	-
Net difference between projected and actual earnings on pension plan investments	5,275	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	707	-
Town contributions subsequent to the measurement date	8,571	-
Total	<u>\$ 30,680</u>	<u>\$ 199</u>

\$8,571 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	\$ 10,538
2021	6,874
2022	1,343
2023	3,157
2024	-
Thereafter	-

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

Inflation	3.0 percent
Salary increases	3.50 to 8.10 percent, including inflation and productivity factor
Investment rate of return	7.00 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.

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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:

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

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

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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:

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 92,317	\$ 38,432	\$ (6,595)

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.

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

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	Total
Pension Expense	\$ 11,038	\$ 11,038
Pension Liability	38,432	38,432
Proportionate share of the net pension liability	0.00162%	
Deferred of Outflows of Resources		
Differences between expected and actual experience	5,929	5,929
Changes of assumptions	10,158	10,158
Net difference between projected and actual earnings on plan investments	5,275	5,275
Changes in proportion and differences between contributions and proportionate share of contributions	707	707
Benefit payments and administrative costs paid subsequent to the measurement date	8,571	8,571
Deferred of Inflows of Resources		
Differences between expected and actual experience	199	199
Changes of assumptions	-	-
Net difference between projected and actual earnings on plan investments	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	-	-

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

2. Deferred Outflows and Inflows of Resources

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

Source	Amount
Contributions to pension plan in current fiscal year	\$ 8,571
Differences between expected and actual experience	5,929
Changes of assumptions	10,198
Net difference between projected and actual	5,275
Changes in proportion and differences between employer contributions and proportionate share of contributions	707
Total	<u>\$ 30,680</u>

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

	Statement of Net Position	General Fund Balance Sheet
Taxes receivable, less penalties (General Fund)	\$ -	\$ 24,615
Differences between expected and actual experience	199	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	-	-
Total	<u>\$ 199</u>	<u>\$ 24,615</u>

3. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in 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 workers' compensation claims that exceed certain

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

dollar cost levels. Medical stop loss insurance 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 is individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$25,000.

4. Commitments

a. Other

The Town has entered into a contract for solid waste and recycling collection expiring in June 2020 for approximately \$233,000 per year.

5. Long-Term Obligations

a. Construction advances

During the construction of the sewer system in prior years, all construction cost in excess of funding was advanced by CCUC with interest at 6%. These advances were partially repaid by CCUC on behalf of the Town of Walkertown from assessments, connection fees, and CCUC contributions at 38% of assessments. The remaining balance of \$247,824 is to be repaid from a multiplier of sewer charges. No payments were made during the current year.

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

b. Promissory note

\$1,680,000 – installment promissory note on sewer system project due in annual installments from May 1, 2005 through 2024 with interest at 2.57% payable semi-annually on May 1 and November 1. The note was paid off during the year.

The promissory note described above represented a loan for the sewer system project. As part of the agreement to transfer the sewer system to the Town of Winston-Salem, the CCUC had agreed to repay this installment note on behalf of the Town of Walkertown from a multiplier of sewer charges over twenty (20) years.

c. 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:					
Compensated absences	\$ 4,850	\$ 4,341	\$ -	\$ 9,191	\$ -
Net pension liability (LERS)	25,360	13,072	-	38,432	-
Governmental activity long-term liabilities	\$ 30,210	\$ 17,413	\$ -	\$ 47,623	\$ -
Business-type activities:					
Construction advances	\$ 247,824	\$ -	\$ -	\$ 247,824	\$ 198,257
Promissory note	504,000	-	504,000	-	-
Business-type activity long-term liabilities	\$ 751,824	\$ -	\$ 504,000	\$ 247,824	\$ 198,257

At June 30, 2019, the Town of Walkertown had a legal debt margin of \$37,491,776.

C. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$ 4,146,610	\$ -
less: long-term debt	-	-
Net investment in capital assets	\$ 4,146,610	\$ -

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

D. Interfund Balances and Activity

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

Due from the General Fund to:

Sewer Fund	\$ 5,000
Total	<u>\$ 5,000</u>

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

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

From the General Fund to the Sewer Fund for principal and interest payments on loan	\$ 510,476
From the Sewer Fund to the General Fund for CCUC reimbursement	(504,000)
Total	<u><u>(\$ 6,476)</u></u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

E. 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	\$ 4,810,072
Less:	
Stabilization by State Statute	139,715
Culture and recreation	225,297
Streets - Powell Bill	766,332
Appropriated Fund Balance in 2018/2019 budget	-
Working Capital/Fund Balance Policy	-
Remaining Fund Balance	3,678,728

Town of Walkertown, North Carolina

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2019

III. Jointly Governed Organization

The Town, in conjunction with twelve counties and sixty other municipalities, established the Piedmont Triad Regional 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 \$1,064 to the Council during the fiscal year ended June 30, 2019.

IV. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

V. Subsequent Events

Subsequent events have been evaluated through December 18, 2019, which is the date the financial statements were available to be issued.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

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

Local Government Employees' Retirement System

	2019	2018	2017	2016	2015	2014
Walkertown's proportion of the net pension liability (asset) (%)	0.00162%	0.00166%	0.00172%	0.00172%	0.00175%	0.00170%
Walkertown's proportion of the net pension liability (asset) (\$)	\$ 38,432	\$ 25,360	\$ 36,504	\$ 7,719	\$ (10,321)	\$ 20,492
Walkertown's covered payroll	\$ 100,965	\$ 98,025	\$ 95,170	\$ 94,745	\$ 91,667	\$ 87,636
Walkertown's proportionate share of the net pension liability (asset) as a percentage of its covered payroll	38.06%	25.87%	38.36%	8.15%	(11.26%)	23.38%
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 Walkertown, North Carolina
Town of Walkertown's Contributions
Required Supplementary Information
Last Six Fiscal Years

Local Government Employees' Retirement System

	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 8,571	\$ 8,774	\$ 8,273	\$ 7,480	\$ 7,826	\$ 6,966
Contributions in relation to the contractually required contribution	8,571	8,774	8,273	7,480	7,826	6,966
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Walkertown's covered payroll	\$ 105,210	\$ 100,965	\$ 98,025	\$ 95,170	\$ 94,745	\$ 91,667
Contributions as a percentage of covered payroll	8.15%	8.69%	8.44%	7.86%	8.26%	7.60%

Individual Fund Schedules

Town of Walkertown, 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)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 947,838	\$
Penalties and interest		3,696	
Total	907,575	951,534	43,959
Other taxes and licenses:			
Privilege licenses		-	
Total	-	-	-
Unrestricted intergovernmental:			
Local option sales taxes		309,517	
Telecommunications sales tax		19,510	
Utility sales tax		275,789	
Video franchise fee		36,969	
Beer and wine tax		23,290	
Total	631,800	665,075	33,275
Restricted intergovernmental:			
Powell Bill allocation		132,695	
Occupancy tax		45,468	
Solid waste disposal tax		3,737	
Total	970,400	181,900	(788,500)
Investment earnings	38,700	93,423	54,723
Miscellaneous			
Miscellaneous		9,189	
Festival revenue		2,985	
Total	7,500	12,174	4,674
Total revenues	2,555,975	1,904,106	(651,869)
Expenditures:			
Council:			
Personnel costs		51,967	
Community relations		8,272	
Total	73,790	60,239	13,551
Administration:			
Personnel costs		208,434	
Contractual services		197,873	
Supplies and materials		65,581	
Capital outlay		-	
Total	548,434	471,888	76,546
			cont.

Town of Walkertown, 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)
Public service:			
Contractual services		785,128	
Total	818,061	785,128	32,933
Public works:			
Contractual services		10,154	
Supplies and materials		50,876	
Capital outlay		-	
Total	132,090	61,030	71,060
Streets:			
Contractual services		104,463	
Capital outlay		-	
Total	863,000	104,463	758,537
Recreation and development:			
Supplies and materials		33,285	
Contractual services		55,630	
Capital outlay		-	
Total	120,600	88,915	31,685
Contingency	-	-	-
Total expenditures	2,555,975	1,571,663	984,312
Revenues over (under) expenditures	-	332,443	332,443
Other financing sources (uses):			
Transfers from other funds:			
Enterprise Fund	510,476	504,000	(6,476)
Transfers to other funds:			
Enterprise Fund	(510,476)	(510,476)	-
Total	-	(6,476)	(6,476)
Fund balance appropriated	-	-	-
Net change in fund balance	\$ -	325,967	\$ 325,967
Fund balances, beginning		4,484,105	
Fund balances, ending		<u>\$ 4,810,072</u>	

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

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Nonoperating revenues:			
Multiplier of sewer charges	\$ 510,476	\$ -	\$ (510,476)
Interest earnings	-	-	-
Total revenues	<u>510,476</u>	<u>-</u>	<u>(510,476)</u>
Expenditures:			
Debt service:			
Interest and other charges		6,476	
Principal retirement		504,000	
Total debt service	<u>510,476</u>	<u>510,476</u>	<u>-</u>
Total expenditures	<u>510,476</u>	<u>510,476</u>	<u>-</u>
Revenues over (under) expenditures	<u>-</u>	<u>(510,476)</u>	<u>(510,476)</u>
Other financing sources (uses):			
Transfer to general fund	(510,476)	(504,000)	6,476
Transfer from general fund	<u>510,476</u>	<u>510,476</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>6,476</u>	<u>6,476</u>
Fund balance appropriated	-	-	-
Revenues over expenditures and other financing sources (uses)	<u>\$ -</u>	<u>(504,000)</u>	<u>\$ (504,000)</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Decrease in accrued interest		2,159	
Principal retirement		504,000	
Total reconciling items		<u>506,159</u>	
Change in net position		<u>\$ 2,159</u>	

Other Schedules

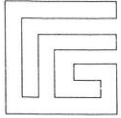
Town of Walkertown, North Carolina
Schedule of Ad Valorem Taxes Receivable
June 30, 2019

<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	\$ -	\$ 943,490	\$ 934,279	\$ 9,211
2017-2018	10,808	-	7,924	2,884
2016-2017	4,103	-	2,161	1,942
2015-2016	2,057	-	620	1,437
2014-2015	1,865	-	593	1,272
2013-2014	2,469	-	1,075	1,394
2012-2013	4,201	-	440	3,761
2011-2012	1,433	-	407	1,026
2010-2011	1,039	-	73	966
2009-2010	741	-	19	722
2008-2009	644	-	644	-
	<u>\$ 29,360</u>	<u>\$ 943,490</u>	<u>\$ 948,235</u>	<u>24,615</u>
Less: allowance for uncollectible accounts: General Fund				<u>-</u>
Ad valorem taxes receivable - net				<u>\$ 24,615</u>
<u>Reconciliation with revenues:</u>				
Ad valorem taxes - General Fund				\$ 951,534
Reconciling items:				
Interest collected				(3,696)
Adjustments				(247)
Taxes written off				644
Subtotal				<u>(3,299)</u>
Total collections and credits				<u>\$ 948,235</u>

Town of Walkertown, North Carolina
Analysis of Current Tax Levy
Town - Wide Levy
June 30, 2019

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 472,281,000	0.20	\$ 944,562	\$ 847,965	\$ 96,597
Discoveries - current and prior year	503,500	0.20	1,007	1,007	-
Releases	(1,039,500)		(2,079)	(2,079)	-
Total property valuation	<u>\$ 471,745,000</u>				
Net levy			943,490	846,893	96,597
Unpaid (by taxpayers) taxes at June 30, 2019			(9,211)	(9,211)	-
Current year's taxes collected			<u>\$ 934,279</u>	<u>\$ 837,682</u>	<u>\$ 96,597</u>
Current levy collection percentage			<u>99.02%</u>	<u>98.91%</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**

Independent Auditor's Report

To the Honorable Mayor
and Members of the Town Council
Town of Walkertown, 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, and each major fund of the Town of Walkertown, 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 Walkertown's basic financial statements, and have issued our report thereon dated December 18, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Walkertown'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 Walkertown'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 and correct 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 Walkertown'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 Walkertown's Response to Findings

The Town of Walkertown's response to the finding identified in our audit is 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.C." in a cursive, flowing script.

Winston-Salem, North Carolina
December 18, 2019

TOWN OF WALKERTOWN, 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.

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: Scott Snow, 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 involved in providing some of these controls.

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