

**Town of Watha
Watha, North Carolina**

Audited Financial Statements

Year Ended June 30, 2019

**Town of Watha
Watha, North Carolina**

Audited Financial Statements

**For the Year Ended
June 30, 2019**

BOARD OF COMMISSIONERS

Needham Hall, Mayor

John Carroll

Joseph Craig

Kenneth Fountain

ADMINISTRATIVE AND FINANCIAL STAFF

Retha Faye Garriss - Clerk

Holly Horton - Finance Officer

Town of Watha, North Carolina
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June 30, 2019

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Financial Section

S. Preston Douglas & Associates, LLP

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS

American Institute of CPAs
N. C. Association of CPAs

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and the major fund of the Town of Watha, 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. 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 the internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Town of Watha, North Carolina as of June 30, 2019, and the respective changes in financial position thereof and the respective budgetary comparison for the General Fund for the year 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 Management's Discussion and Analysis on pages 3 through 7, 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 Watha, 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 financial 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 financial statements, budgetary schedules, and other schedules are fairly stated in, all material respects, in relation to the basic financial statements as a whole.



Lumberton, North Carolina
October 25, 2019

Management's Discussion and Analysis

Town of Watha, North Carolina Management's Discussion and Analysis June 30, 2019

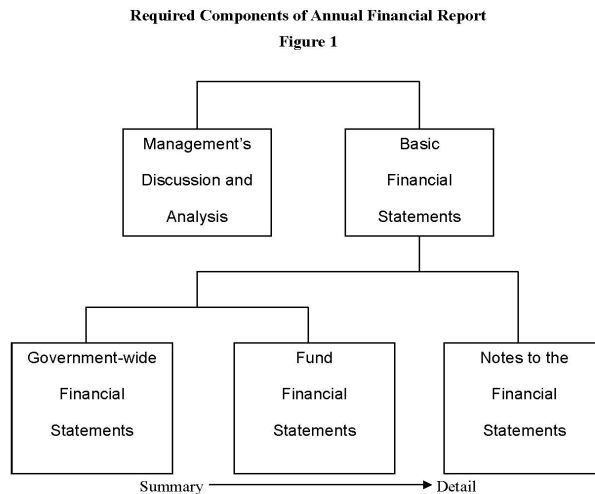
As management of the Town of Watha, we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Watha for the fiscal year ending June 30, 2019. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The assets of the Town of Watha exceeded its liabilities at the close of the fiscal year by \$281,863 (*net position*).
- The government's total net position increased by \$36,636 mostly due to an increase in other taxes in the amount of \$6,076.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$271,786. Approximately 30.36% of this total amount, or \$82,501, is restricted. At the end of the current fiscal year, unassigned fund balance for the General Fund was \$189,285 or 327.29% of total General Fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Watha's basic financial statements. The Town's basic financial statements comprise 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 also contains other supplementary information that will enhance the reader's understanding of the financial condition of the Town of Watha.



Basic Financial Statements

The first two statements 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 are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements.

There are two parts to the Fund Financial Statements: 1) the governmental funds statements and 2) the budgetary comparison statements.

Town of Watha, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2019

Basic Financial Statements (continued)

The next section of the basic financial statements is the **Notes to Financial Statements**. The notes explain in detail some of the data contained in those statements.

After the notes, additional information is provided to show details about the Town's individual funds. Budgetary information required by the N.C. General Statutes can also 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, in a manner similar to the 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 they have changed. Net position is the difference between the Town's total assets and total liabilities. Measuring net position is one way to gauge the Town's financial condition.

The government-wide statements include governmental activities. The Town has no business-type activities. The governmental activities include most of the Town's basic services such as general administration. Property taxes and State and federal grant funds finance most of these activities. The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

The fund financial statements 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 Watha, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Town has only one governmental fund: General Fund.

Governmental funds. Governmental funds are used to account for essentially the same 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 monies that are unexpended 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 determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

Town of Watha, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2019

Fund Financial Statements (continued)

Notes to 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 can be found on pages 14-21 of this report.

Government-Wide Financial Analysis

The Town of Watha's Net Position
Figure 2

	Governmental Activities	
	2019	2018
Current and other assets	\$ 272,051	\$ 234,104
Capital assets	9,812	11,123
Total assets	\$ 281,863	\$ 245,227
Net position		
Net investment in capital assets	\$ 9,812	\$ 11,123
Restricted	82,501	63,889
Unrestricted	189,550	170,215
Total net position	\$ 281,863	\$ 245,227

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The assets of the Town exceeded liabilities by \$281,863 at the close of the current fiscal year. The Town's investment in capital assets (e.g. land, buildings, machinery, and equipment) reflects 3.48% of net position, less any related debt still outstanding that was issued to acquire those items. The Town of Watha uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Watha's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Watha's net position represents resources that are subject to external restrictions on how they may be used. The unrestricted amount is \$189,550.

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

- The collection of property taxes has a tax collection percentage of 95.90%.

Town of Watha, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2019

Government-Wide Financial Analysis (continued)

Town of Watha's Changes in Net Position
Figure 3

	Governmental Activities	
	2019	2018
Revenues:		
Program revenues:		
Charges for services	\$ 1,000	\$ 900
Operating grants/contributions	8,669	8,665
General revenues:		
Property taxes	3,211	3,492
Other taxes	82,900	76,824
Total revenues	95,780	89,881
Expenses:		
General government	55,399	56,258
Transportation	3,745	3,645
Total expenses	59,144	59,903
Change in net position	36,636	29,978
Net position - beginning	245,227	215,249
Net position - ending	\$ 281,863	\$ 245,227

Governmental activities. Governmental activities increased the Town's net position by \$36,636.

Financial Analysis of the Government's Funds

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

Governmental Funds. The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. Specifically, unreserved fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The General Fund is the chief operating fund of the Town of Watha. At the end of the fiscal year, unassigned fund balance for the general fund was \$189,285, while the total fund balance reached \$271,786. As a measure of the general fund's liquidity, it may be useful to compare both undesignated fund balance and total fund balance to total expenditures. Unassigned fund balance represents 327.29% of total General Fund expenditures.

**Town of Watha, North Carolina
Management's Discussion and Analysis (continued)
June 30, 2019**

General Fund Budgetary Highlights

As stated previously, the Town made no revisions to the original budget. However, 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.

Capital Assets. The Town of Watha's investment in capital assets for its governmental activities as of June 30, 2019 totals \$9,812 (net of accumulated depreciation). These include land, buildings, machinery and equipment.

**Town of Watha's Capital Assets
(net of depreciation)
Figure 4**

	Governmental Activities	
	2019	2018
Land	\$ 9,812	\$ 9,812
Building and system	-	1,311
Total capital assets, net	\$ 9,812	\$ 11,123

Additional information on the Town's capital assets can be found in the notes on page 20 of this report.

Budget Highlights for Next Year's Budget and Unemployment Rates

- No significant changes in the budget.
- Unemployment rates remained steady.

Request for Information

This report is designed to provide a general overview of the Town of Watha's finances for those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be directed to Holly Horton, 6614 US Highway 117 N, Watha, NC 28478.

Basic Financial Statements

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

	Primary Government	
	Governmental	
	Activities	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 201,362	\$ 201,362
Taxes receivables, net	265	265
Due from other governments	16,893	16,893
Restricted cash and cash equivalents	53,531	53,531
Total current assets	272,051	272,051
Non-current assets:		
Capital assets (Note 3):		
Land and non-depreciable improvements	9,812	9,812
Total capital assets	9,812	9,812
Total assets	\$ 281,863	\$ 281,863
NET POSITION		
Net investment in capital assets	\$ 9,812	\$ 9,812
Restricted for:		
Stabilization by State Statute	28,970	28,970
Transportation - Powell Bill	53,531	53,531
Unrestricted	189,550	189,550
Total net position	\$ 281,863	\$ 281,863

Town of Watha, North Carolina
Statement of Activities
Year Ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Position
					Governmental Activities
Primary government:					
Governmental Activities:					
General government	\$ 55,399	\$ 1,000	\$ -	\$ -	\$ (54,399)
Transportation	3,745	-	8,669	-	4,924
Total governmental activities	\$ 59,144	\$ 1,000	\$ 8,669	\$ -	(49,475)
 General revenues:					
Taxes:					
Property taxes, levied for general purpose					3,211
Other taxes					82,900
Total general revenues					86,111
 Change in net position					 36,636
 Net position, beginning					 245,227
Net position, ending					\$ 281,863

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

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

	Major Fund General	Total Governmental Funds
<u>ASSETS</u>		
Cash and cash equivalents	\$ 201,362	\$ 201,362
Restricted cash and cash equivalents	53,531	53,531
Taxes receivables, net	265	265
Due from other governments	16,893	16,893
Total assets	\$ 272,051	\$ 272,051
<u>DEFERRED INFLOWS OF RESOURCES</u>		
Property taxes receivable	\$ 265	\$ 265
Total deferred inflows of resources	265	265
<u>FUND BALANCES</u>		
Restricted		
Stabilization by State Statute	28,970	28,970
Transportation - Powell Bill	53,531	53,531
Unassigned	189,285	189,285
Total fund balances	271,786	271,786
Total liabilities, deferred inflows of resources and fund balances	\$ 272,051	\$ 272,051
Amounts reported for governmental activities in the Statement of Net Position are different because:		
Total Fund Balance, Governmental Funds		\$ 271,786
Capital assets used in governmental activities are not financial resources and therefore not reported in the funds.		
Gross capital assets at historical cost	\$ 77,821	
Accumulated depreciation	(68,009)	9,812
Earned revenues are considered deferred inflows of resources in fund statements		
Net position of governmental activities		265
		\$ 281,863

Town of Watha, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances –
Governmental Funds
Year Ended June 30, 2019

	Major Fund General	Total Governmental Funds
Revenues:		
Ad valorem taxes	\$ 3,297	\$ 3,297
Unrestricted intergovernmental	82,901	82,901
Restricted intergovernmental	8,669	8,669
Sales and services	1,000	1,000
Total revenues	95,867	95,867
Expenditures:		
Current:		
General government	54,089	54,089
Transportation	3,745	3,745
Total expenditures	57,834	57,834
Excess (deficiency) of revenues over expenditures	38,033	38,033
Net change in fund balances	38,033	38,033
Fund balances, beginning	233,753	233,753
Fund balances, ending	\$ 271,786	\$ 271,786

Town of Watha, North Carolina
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
Of Governmental Funds to the Statement of Activities
Year Ended June 30, 2019

Amounts reported for governmental activities in the statement of activities are different because:

Net change in fund balances - total governmental funds	\$	38,033
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.</p>		
Depreciation expense for governmental assets		(1,310)
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue for tax revenues		<u>(87)</u>
Total changes in net position of governmental activities	\$	<u><u>36,636</u></u>

Town of Watha, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual
General Fund
Year Ended June 30, 2019

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 3,000	\$ 3,000	\$ 3,297	\$ 297
Unrestricted intergovernmental	73,450	73,450	82,901	9,451
Restricted intergovernmental	7,600	7,600	8,669	1,069
Sales and services	700	700	1,000	300
Miscellaneous	100	100	-	(100)
Total revenues	<u>84,850</u>	<u>84,850</u>	<u>95,867</u>	<u>11,017</u>
Expenditures:				
Current:				
General government	121,500	121,500	54,089	67,411
Transportation	7,500	7,500	3,745	3,755
Total expenditures	<u>129,000</u>	<u>129,000</u>	<u>57,834</u>	<u>71,166</u>
Revenues over (under) expenditures	<u>(44,150)</u>	<u>(44,150)</u>	<u>38,033</u>	<u>82,183</u>
Fund balance appropriated	44,150	44,150	-	44,150
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	38,033	<u>\$ 38,033</u>
Fund balance, beginning			<u>233,753</u>	
Fund balance, ending			<u>\$ 271,786</u>	

Notes to the Financial Statements

Town of Watha, North Carolina
Notes to Financial Statements
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Watha, North Carolina (the “Town”) conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

A - Reporting Entity

The Town is a municipal corporation that is governed by an elected mayor and a three-member council. There are no discretely presented component units.

B - Basis of Presentation - Fund Accounting

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. The Town does not have any business-type activities.

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

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

The Town reports the following major governmental fund:

General Fund - The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

The Town has no nonmajor governmental funds.

C - Measurement Focus - 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 Statements. The government-wide statements are reported using the economic resources measurement focus. The government-wide 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.

Town of Watha, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C - Measurement Focus - Basis of Accounting (continued)

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual. At June 30, taxes receivable 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 utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

D - Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. 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 object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations. The governing board must approve all amendments. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Balances

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.

Town of Watha, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Balances (continued)

Deposits and Investments (continued)

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. The NCCMT-Term Portfolio is bond fund, has no rating and is measured at fair value. As of June 30, 2019, The Term portfolio has a duration of 0.11 years. Because the NCCMT Government and Term Portfolios have a weighted average maturity of less than 90 days, they are presented as an investment with a maturity of less than 6 months.

Cash and Cash Equivalents

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

Restricted Assets

Powell Bill funds are classified as restricted because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G. S. 136-41.1 through 136-41.4.

Governmental Activities		
General Fund		
Streets	\$	53,531
Total Governmental Activities		53,531
Total Restricted Cash	\$	53,531

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies Ad Valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2018. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date.

Allowance for Doubtful Accounts

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

Town of Watha, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Balances (continued)

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; equipment and furniture, \$5,000; vehicles and motorized equipment, \$10,000; \$5,000 computer software and computer equipment \$500. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

	<u>Estimated Useful Lives</u>
Infrastructure	20
Buildings	40
Improvements	20
Vehicles	5
Computer equipment	5
Furniture and office equipment	10

Deferred Outflows/Inflows of Resources

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

Net Position

Net position in the government-wide statements is classified as invested in capital assets, net of related debt; 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.

Town of Watha, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E - Assets, Liabilities, Deferred Outflows/Inflows of Resources, and Fund Balances (continued)

Fund Balances (continued)

The governmental fund types classify fund balances as follows:

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

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

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

Restricted for Transportation – 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.

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

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

Town of Watha, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

1. Noncompliance with North Carolina General Statutes

None

2. Contractual Violations

None

B - Deficit in Fund Balance or Net Position of Individual Funds

None

C - Excess of Expenditures over Appropriations

None

NOTE 3 - DETAIL NOTES ON ALL FUNDS

A - Assets

Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no 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, 2018, the Town's deposits had a carrying amount of \$254,893 and a bank balance of \$255,023. Federal Deposit Insurance covers all of the Town's deposits.

Town of Watha, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

A - Assets (continued)

Capital Assets

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

Governmental Activities:

	Beginning	Increases	Decreases	Ending
	Balances			Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 9,812	\$ -	\$ -	\$ 9,812
Total capital assets not being depreciated	9,812	-	-	9,812
Capital assets being depreciated:				
Buildings	52,662	-	-	52,662
Other improvements	4,729	-	-	4,729
Furniture and fixtures	10,618	-	-	10,618
Total capital assets being depreciated	68,009	-	-	68,009
Less accumulated depreciation for:				
Buildings	51,352	1,310	-	52,662
Other improvements	4,729	-	-	4,729
Furniture and fixtures	10,618	-	-	10,618
Total accumulated depreciation	66,699	1,310	-	68,009
Total capital assets being depreciated, net	1,310			-
Governmental activities capital assets, net	\$ 11,122			\$ 9,812

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

General government	\$ 1,310
Total depreciation expense	\$ 1,310

B - Liabilities

Pension Plan Obligations

The Town has no full-time employees. All services are performed on a volunteer or contract basis. Therefore, the Town has no pension or payroll liabilities. There is no post-employment benefit liability for the same reason.

Town of Watha, North Carolina
Notes to Financial Statements (continued)
June 30, 2019

NOTE 3 - DETAIL NOTES ON ALL FUNDS (continued)

B - Liabilities (continued)

Deferred Inflows of Resources

Deferred inflows of resources at year-end comprised of property taxes receivable of \$265.

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 up to \$2 million lifetime coverage. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$500,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of total insurance values.

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 Town does not carry flood insurance.

C - Fund Balance

Total Fund Balance - General Fund	\$ 271,786
Less:	
Stabilization by State Statute	28,970
Transportation - Powell Bill	53,531
Remaining Fund Balance	\$ 189,285

NOTE 4 - SUBSEQUENT EVENTS

Subsequent events were evaluated through October 25, 2019, which is the date the financial statements were available to be issued.

Individual Fund Financial Statements

Town of Watha, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual
Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 3,249	\$
Penalties and interest		48	
Total	<u>3,000</u>	<u>3,297</u>	<u>297</u>
Unrestricted intergovernmental:			
Local option sales taxes		68,105	
Cable franchise fees		2,159	
Utilities franchise tax		2,760	
Beer and wine tax		968	
Solid Waste		156	
ABC tax		8,753	
Total	<u>73,450</u>	<u>82,901</u>	<u>9,451</u>
Restricted intergovernmental:			
Powell Bill allocation		5,069	
Street		3,600	
Total	<u>7,600</u>	<u>8,669</u>	<u>1,069</u>
Sales and services:			
Rent		1,000	
Total	<u>700</u>	<u>1,000</u>	<u>300</u>
Miscellaneous	<u>100</u>	<u>-</u>	<u>(100)</u>
Total revenues	<u>\$ 84,850</u>	<u>\$ 95,867</u>	<u>\$ 11,017</u>

Town of Watha, North Carolina
General Fund
Schedule of Revenues, Expenditures, and Changes in Fund Balance –
Budget and Actual (continued)
Year Ended June 30, 2019

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Expenditures:			
General government:			
Governing body:			
Professional services	\$	\$ 6,150	\$
Tax collection expense		2,573	
Total	<u>25,000</u>	<u>8,723</u>	<u>16,277</u>
Administration/Finance:			
Officer and clerk fees		10,045	
Travel		2,604	
Other operating expenditures		1,760	
Total	<u>49,300</u>	<u>14,409</u>	<u>34,891</u>
Public Buildings:			
Utilities		2,653	
Repairs and maintenance		3,927	
Insurance		2,529	
Trash disposal		21,848	
Total	<u>47,200</u>	<u>30,957</u>	<u>16,243</u>
Total general government	<u>121,500</u>	<u>54,089</u>	<u>67,411</u>
Transportation:			
Repairs and maintenance		3,745	
Total	<u>7,500</u>	<u>3,745</u>	<u>3,755</u>
Total expenditures	<u>129,000</u>	<u>57,834</u>	<u>71,166</u>
Revenues over (under) expenditures	<u>(44,150)</u>	<u>38,033</u>	<u>82,183</u>
Fund balance appropriated	44,150	-	43,400
Net change in fund balance	<u>\$ -</u>	38,033	<u>\$ 38,033</u>
Fund balance, beginning		<u>233,753</u>	
Fund balance, ending		<u>\$ 271,786</u>	

This section contains additional information on property taxes.

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

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

<u>Fiscal Year</u>	<u>Uncollected Balances June 30, 2018</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balances June 30, 2019</u>
2018-2019	\$ -	\$ 4,489	\$ 4,305	\$ 184
2017-2018	164	-	135	29
2016-2017	59	-	46	13
2015-2016	37	-	-	37
2014-2015	13	-	11	2
2013-2014	78	-	78	-
	<u>\$ 351</u>	<u>\$ 4,489</u>	<u>\$ 4,575</u>	<u>265</u>

Less: allowance for uncollectible accounts - General Fund

-

Ad valorem taxes receivable - net

\$ 265

Reconciliation to revenues:

Ad valorem taxes - General Fund

\$ 3,297

Interest and Penalties collected

(48)

Reconciling items:

Other

1,326

Total collections and credits

\$ 4,575

**Town of Watha, North Carolina
Analysis of Current Year Tax Levy
Year Ended June 30, 2019**

	<u>Town-Wide Levy</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property Excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy					
Property taxed at current year's rate	\$ 8,978,000	0.05	\$ 4,489	\$ 3,753	\$ 736
Releases			-	-	-
Net levy			4,489	3,753	736
Uncollected taxes at June 30, 2019			(184)	(184)	-
Current year's taxes collected			<u>\$ 4,305</u>	<u>\$ 3,569</u>	<u>\$ 736</u>
Current levy collection percentage			<u>95.90%</u>	<u>95.10%</u>	<u>100.00%</u>