

**TOWN OF BAKERSVILLE
NORTH CAROLINA**

Financial Statements

June 30, 2020

(with Independent Auditor's Report thereon)

Town Council

**Mayor- Charles Vines
Charles Nash
Jordon Baker
Beau Thomas**

**S. GILLESPIE, P.A.
Certified Public Accountant
PO Box 725, 215 Oak Avenue
Spruce Pine, North Carolina 28777**

TOWN OF BAKERSVILLE, NORTH CAROLINA
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S. Gillespie, P.A.

Certified Public Accountant

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of Town of Bakersville, North Carolina, as of and for the year then ended June 30, 2020, and the related notes to the financial statements, which collectively comprise Town of Bakersville'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 from material misstatement.

215 OAK AVE., P.O. BOX 725, SPRUCE PINE, NC 28777 • (828) 765-6444 • FAX: (828) 765-0538

MEMBER: AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS - NORTH CAROLINA ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

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 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, each major fund, and the aggregate remaining fund information of Town of Bakersville, North Carolina as of June 30, 2020, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Other Postemployment Benefits' Schedule of Changes in the Total OPEB Liability and Related Ratios, the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll, and the other Postemployment Benefits' Schedules of Funding Progress and Employer Contributions Local Government Employees' Retirement System Schedules of the Town's Proportionate Share of Net Pension Asset and Town Contributions, pages 8-17 and 52-53, respectively, be presented to

supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of Town of Bakersville, North Carolina. The combining and individual fund financial statements, budgetary schedules, and other schedules are presented for the purposes of additional analysis and are not a required part of the basic financial statements. The Schedule of Expenditures of Federal and State Awards as required by the Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and the State Single Audit Implementation Act and is also not a required part of the basic financial statements.

The combining and individual fund financial statements, budgetary schedules, other schedules and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us. In our opinion, based on our audit and the procedures performed as described above, the combining and individual fund financial statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal

and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2020 on our consideration of Town of Bakersville's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Bakersville's internal control over financial reporting and compliance.

S. Gillespie, P.A.

Spruce Pine, North Carolina
November 6, 2020

TOWN OF BAKERSVILLE, NORTH CAROLINA
Management's Discussion and Analysis
June 30, 2020

As management of the Town of Bakersville, we offer readers of the Town of Bakersville's financial statements this narrative overview and analysis of the financial activities of the Town of Bakersville for the fiscal year ended June 30, 2020. 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

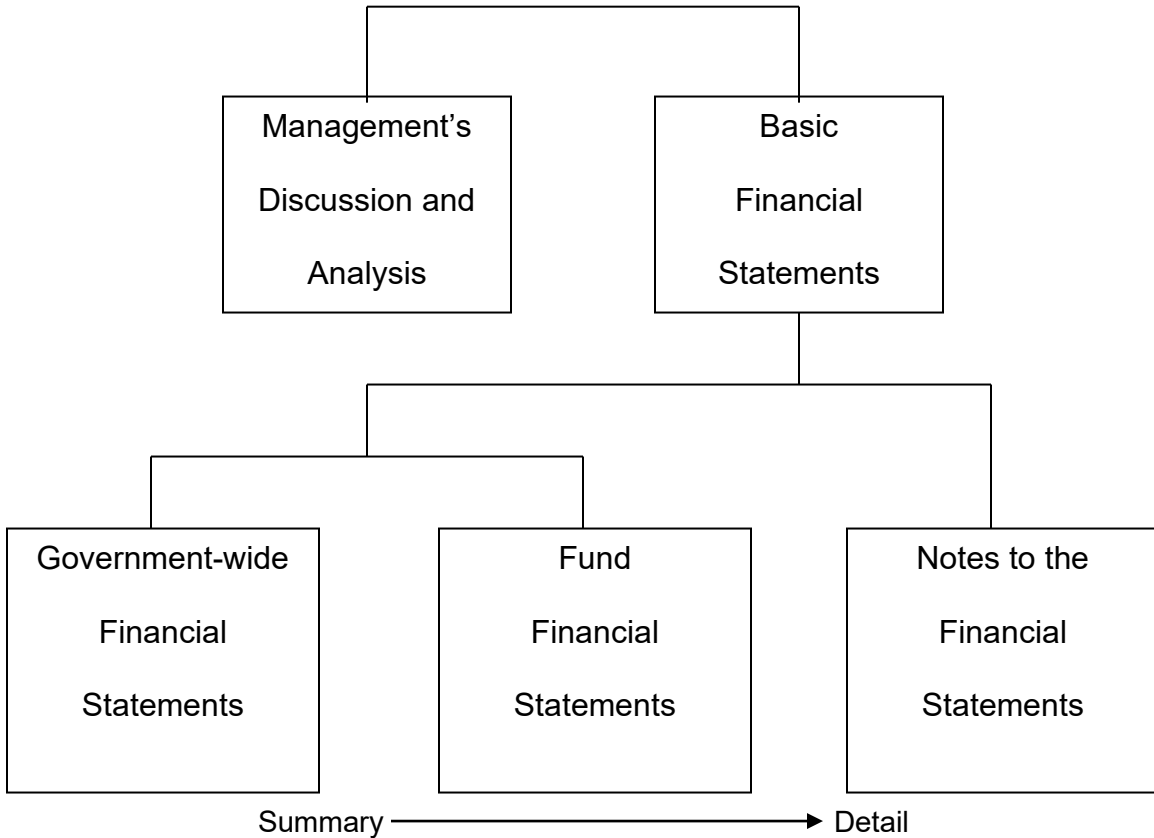
- The assets of the Town of Bakersville exceeded its liabilities at the close of the fiscal year by \$7,716,896.
- The government's total net position increased by \$1,228,769.
- As of the close of the current fiscal year, The Town of Bakersville's governmental funds reported combined ending fund balances of \$780,537 an increase of \$37,092 in comparison with the prior year. Approximately 72 percent of this total amount, or \$555,359 is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$555,359 or 137 percent of total general fund expenditures for the fiscal year.
- The Town of Bakersville's total debt generated by installment obligations increased by \$21,514 during the current fiscal year.
- The water and sewer infrastructure project funded by a community development block grant was completed during the fiscal year.

Overview of the Basic Financial Statements

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

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**. These statements provide short and long-term information about the Town's financial status.

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

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

Management's Discussion and Analysis (continued)

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 total liabilities. 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 service such as public safety, public works, and sanitation, and general information. 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 water and sewer services offered by the Town of Bakersville.

The government-wide financial statements are on Exhibits 1 and 2 of this report.

Fund Financial Statements

The fund financial statements (see Figure 2) 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 Bakersville, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Bakersville 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 be readily converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town of Bakersville 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

Management's Discussion and Analysis (continued)

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. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

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

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 28-51 of this report.

Other Information

Combining and individual fund statements and schedules are also included in this report.

In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Bakersville's progress in funding its obligation to provide pension benefits to its employees.

Interdependence with Other Entities

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

Management's Discussion and Analysis (continued)

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 784,000	\$ 751,080	\$ 102,354	\$ 99,854	\$ 886,354	\$ 850,934
Noncurrent and capital assets	1,619,932	1,814,698	5,572,126	4,160,509	7,192,058	5,975,207
Total assets	2,403,932	2,565,778	5,674,480	4,260,363	8,078,412	6,826,141
Deferred Outflows of Resources	36,768	36,244	5,593	4,348	42,361	40,592
Long-term liabilities outstanding	5,294	107,478	223,118	218,163	228,412	325,641
Other liabilities	21,805	28,591	242,709	18,278	264,514	46,869
Total liabilities	27,099	136,069	465,827	236,441	492,926	372,510
Deferred Inflows of Resources	6,443	8,334	232	262	6,675	8,596
Net position:						
Net investment in capital assets	1,575,446	1,748,698	5,359,626	3,940,009	6,935,072	5,688,707
Restricted	208,811	95,941	-	-	208,811	95,941
Unrestricted	517,436	612,980	55,577	90,499	573,013	703,479
Total net position	\$ 2,301,693	\$ 2,457,619	\$ 5,415,203	\$ 4,030,508	\$ 7,716,896	\$ 6,488,127

As noted earlier, net position may serve over time as one useful indication of an agency's financial condition. The assets of The Town of Bakersville exceeded liabilities by \$7,716,896 as of June 30, 2020. The Town's net position increased by \$1,228,769 for the fiscal year ended June 30, 2020. The largest portion of net position (89%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery, and equipment) less any related debt still outstanding that was issued to acquire those items. The Town of Bakersville uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Bakersville'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. A portion of the balance, \$208,811 is restricted as to use and the remaining balance of 573,013 is unrestricted. Decisions regarding the allocation are made by the administrators of the pension plan, not by the Town of Bakersville's management.

A particular aspect of the Town's financial operations that positively influenced the total unrestricted governmental net position:

- Continued diligence in the collection of property taxes by maintaining a tax collection percentage rate of 97.29%.

Management's Discussion and Analysis (continued)

Town of Bakersville's Changes in Net Assets

Figure 3

	Governmental Activities		Business-Type Activities		Total	Total
	2020	2019	2020	2019	2020	2019
Revenues:						
Program Revenues:						
Charges for services	\$ 9,103	\$ 9,021	\$ 157,111	\$ 149,346	\$ 166,214	\$ 158,367
Operating grants and contributions	187,734	196,748		-	187,734	196,748
Capital grants and contributions	-	269,935	1,453,283	281,634	1,453,283	551,569
General Revenues:						
Property taxes	122,601	127,641	-	-	122,601	127,641
Other Taxes	95,408	97,815	-	-	95,408	97,815
Grants and contributions not restricted to specific programs	5,720	13,555	-	-	5,720	13,555
Other	15,804	14,578	12	13	15,816	14,591
Total revenues	436,370	729,293	1,610,406	430,993	2,046,776	1,160,286
Expenses:						
General government	131,446	110,507	-	-	131,446	110,507
Public safety	381,958	377,491	-	-	381,958	377,491
Public works	77,407	79,055	-	-	77,407	79,055
Interest on long-term debt	1,485	1,109	-	-	1,485	1,109
Water and sewer	-	-	225,711	201,539	225,711	201,539
Total expenses	592,296	568,162	225,711	201,539	818,007	769,701
Increase (decrease) in net position	(155,926)	161,131	1,384,695	229,454	1,228,769	390,585
Net Position:						
Net position, July 1	2,457,619	2,296,488	4,030,508	3,801,054	6,488,127	6,097,542
Net position, June 30	\$ 2,301,693	\$ 2,457,619	\$ 5,415,203	\$ 4,030,508	\$ 7,716,896	\$ 6,488,127

Governmental activities. Governmental activities decreased the Town's net position by \$155,926. Key elements of this decrease are as follows:

- Increased expenditures in current year

Business-Type Activities: Business-type activities increased the Town of Bakersville's net position by \$1,384,695. Key elements of this increase are as follows:

Management's Discussion and Analysis (continued)

- The Town received a water project capital grant with current year proceeds of \$1,453,283.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Bakersville'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 Bakersville'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 Bakersville. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$631,136 while total fund balance reached \$764,169. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 137 percent of total General Fund expenditures and transfers (compared to 87% in 2019) while total fund balance represents 188 percent of that same amount (compared to 101% in 2019).

At June 30, 2020 the governmental funds of The Town of Bakersville reported a combined fund balance of \$764,169, an increase of \$37,092 over last year.

General Fund Budgetary Highlights: During the fiscal year, the Town made revisions to the original budget. 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.

Proprietary Funds. The Town of Bakersville's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$55,577. The total change in net position was an increase of \$1,384,695. Other factors concerning the finances of the fund have already been addressed in the discussion of the Town of Bakersville's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Bakersville's investment in capital assets for its governmental and business-type activities as of June 30, 2020, totals \$7,192,058 (net of accumulated depreciation). These assets include buildings, road and bridges, land, machinery and equipment, vehicles, water and sewer systems.

Management's Discussion and Analysis (continued)

Major capital asset transactions during the year include the following:

- Paving with Powell Bill funding
- Construction on water project

**Town of Bakersville's Capital Assets
(Net of Depreciation)**

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land and non depreciable	\$ 480,856	\$ 480,856	\$ 7,221	\$ 546,328	\$ 488,077	\$ 1,027,184
Buildings	465,022	478,146	-	-	465,022	478,146
Equipment	418,683	546,572	-	-	418,683	546,572
Vehicles	220,775	271,309	-	-	220,775	271,309
Infrastructure	34,596	37,815	-	-	34,596	37,815
Water and sewer system	-	-	5,564,905	3,614,181	5,564,905	3,614,181
Total	<u>\$ 1,619,932</u>	<u>\$ 1,814,698</u>	<u>\$ 5,572,126</u>	<u>\$ 4,160,509</u>	<u>\$ 7,192,058</u>	<u>\$ 5,975,207</u>

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

Long-Term Debt. As of June 30, 2020, the Town of Bakersville had total bonded debt outstanding of \$256,987 backed by the full faith and credit of the Town.

Of this, \$212,500 was for water and sewer bonds. The total water and sewer debt payments, including interest for the year, were \$18,473.

Management's Discussion and Analysis (continued)

Figure 5

	Governmental		Business-Type Activities		Total	
	2019	2019	2020	2019	2020	2019
Installment contracts	\$ 44,487	\$ 66,000	\$ -	\$ -	\$ 44,487	\$ 66,000
General obligation bonds	-	-	212,500	220,500	212,500	220,500
Total	\$ 44,487	\$ 66,000	\$ 212,500	\$ 220,500	\$ 256,987	\$ 286,500

The Town of Bakersville's total installment obligations debt decreased by \$21,513 during the past fiscal year, primarily due to the net effect of outflow of principal payments toward debt reduction.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Bakersville's long-term debt is \$ 2,222,598.

Additional information regarding the Town of Bakersville's long-term debt can be found in the notes to the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

The Town is located in an economically-challenged rural area. 74.23% of households within the Town of Bakersville are Low-Moderate Income Households. In regard to our local economic data, Mitchell County, including the Town of Bakersville, has been designated as a Tier 1 County for FY 2019 as determined by the Appalachian Regional Commission. The system compares each county's averages for three economic indicators—three-year average unemployment rate, per capita market income, and poverty rate—with national averages.

During the 2019-20 fiscal year, the Town completed an infrastructure project using a CDBG grant along with some local funds. The project provided additional water meters, 32 new fire hydrants, and a new well for the Town.

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

Management's Discussion and Analysis (continued)

- Continued aggressive collection measures by staff will keep revenues stable.

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities: The property tax rate for the Town of Bakersville will increase effective July 1, 2020 to \$0.46 per \$100.

The Town continues to make efforts to increase the undesignated fund balance. Other than the additional revenues from the property tax increase, , budgeted revenues and expenditures in the General Fund are expected to remain consistent with prior years.

The main revenue sources for the General Fund are: 1) Property and Vehicle Taxes (55%), 2) Sales and Use Taxes (20%), and 3) Utilities Franchise Taxes (15%). These three revenue sources represent 90% of total General Fund Revenues.

Business-Type Activities: The Mayor and Town Council continue to be committed to reducing bad debt accounts in upcoming years. The 2020-2021 fiscal year will see an overall decrease in revenue due to the completion of the grant funding for water system improvements, however, operating revenues are expected to remain consistent.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Mayor or the Director of Finance, Town of Bakersville, P.O. Box 53, Bakersville, NC 28705. You can also call (828)-688-2113 for more information.

TOWN OF BAKERSVILLE, NORTH CAROLINA
STATEMENT OF NET POSITION
JUNE 30, 2020

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Assets:			
Current Assets:			
Cash and cash equivalents	\$ 561,740	\$ 14,017	\$ 575,757
Taxes receivable (net)	13,733	-	13,733
Accounts receivable (net)	20,892	289,526	310,418
Restricted cash and equivalents	187,635	-	187,635
Total current assets	<u>784,000</u>	<u>303,543</u>	<u>1,087,543</u>
Non-current Assets:			
Capital Assets:			
Land and construction in progress	480,856	7,221	488,077
Other capital assets, net of depreciation	1,139,076	5,564,905	6,703,981
Total non-current assets:	<u>1,619,932</u>	<u>5,572,126</u>	<u>7,192,058</u>
Total assets	<u>2,403,932</u>	<u>5,875,669</u>	<u>8,279,601</u>
Deferred Outflows of Resources			
Contributions to pension plan	<u>36,768</u>	<u>5,593</u>	<u>42,361</u>
Liabilities:			
Current Liabilities:			
Accounts payable	5,294	242,709	248,003
Due within one year			
Bonds, capital leases and contracts	21,513	8,500	30,013
Compensated absences	292	-	292
Total current liabilities	<u>27,099</u>	<u>251,209</u>	<u>278,308</u>
Long-Term Liabilities:			
Due in more than one year			
Net pension liability	55,743	10,618	66,361
Total pension liability	26,749	-	26,749
Bonds, capital leases and contracts	22,973	204,000	226,973
Total long-term liabilities	<u>105,465</u>	<u>214,618</u>	<u>320,083</u>
Total Liabilities	<u>132,564</u>	<u>465,827</u>	<u>598,391</u>
Deferred Inflows of Resources			
	<u>6,443</u>	<u>232</u>	<u>6,675</u>
Net Position:			
Net investment in capital assets	1,575,446	5,359,626	6,935,072
Restricted for:			
Reserve for state statute	20,892	-	20,892
Powell Bill	3,331	-	3,331
McBee	74,777	-	74,777
Public safety	109,811	-	109,811
Unrestricted	517,436	55,577	573,013
Total net position	<u>\$ 2,301,693</u>	<u>\$ 5,415,203</u>	<u>\$ 7,716,896</u>

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

TOWN OF BAKERSVILLE, NORTH CAROLINA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2020

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
Primary Government:							
Governmental Activities:							
General Government	\$ 131,446	\$ -	\$ 9,500	\$ -	\$ (121,946)	\$ -	\$ (121,946)
Public Safety	381,958	322	163,681	-	(217,955)	-	(217,955)
Public Works	77,407	8,781	14,553	-	(54,073)	-	(54,073)
Interest on long-term debt	1,485	-	-	-	(1,485)	-	(1,485)
Total governmental activities	<u>592,296</u>	<u>9,103</u>	<u>187,734</u>	<u>-</u>	<u>(395,459)</u>	<u>-</u>	<u>(395,459)</u>
Business-Type Activities							
Water and sewer	<u>225,711</u>	<u>157,111</u>	<u>-</u>	<u>1,453,283</u>	<u>-</u>	<u>1,384,683</u>	<u>1,384,683</u>
Total business-type activities	<u>225,711</u>	<u>157,111</u>	<u>-</u>	<u>1,453,283</u>	<u>-</u>	<u>1,384,683</u>	<u>1,384,683</u>
Total primary government	<u>\$ 818,007</u>	<u>\$ 166,214</u>	<u>\$ 187,734</u>	<u>\$ 1,453,283</u>	<u>(395,459)</u>	<u>1,384,683</u>	<u>989,224</u>
General Revenues:							
Taxes:							
Property taxes, levied for general purposes					122,601	-	122,601
Other taxes					95,408	-	95,408
Grants and contributions not restricted to specific programs					-	-	-
Unrestricted investment earnings					5,720	12	5,732
Miscellaneous revenues					15,804	-	15,804
Total general revenues and transfers					<u>239,533</u>	<u>12</u>	<u>239,545</u>
Change in net position					(155,926)	1,384,695	1,228,769
Net Position:							
Beginning of year, July 1					2,457,619	4,030,508	6,488,127
End of year, June 30					<u>\$ 2,301,693</u>	<u>\$ 5,415,203</u>	<u>\$ 7,716,896</u>

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

**TOWN OF BAKERSVILLE, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2020**

	<u>General</u>	<u>Total Governmental Funds</u>
Assets:		
Cash and cash equivalents	\$ 561,740	\$ 561,740
Restricted cash	187,635	187,635
Receivables, net		
Taxes	10,270	10,270
Accounts receivable	799	799
Due from other governments	20,093	20,093
Total assets	<u>\$ 780,537</u>	<u>\$ 780,537</u>
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	\$ 5,294	\$ 5,294
Total liabilities	<u>5,294</u>	<u>5,294</u>
Deferred Inflows of Resources:		
Prepaid taxes	804	804
Taxes receivable	10,270	10,270
Total deferred inflows of resources	<u>11,074</u>	<u>11,074</u>
Fund balances:		
Restricted:		
State Statute	\$ 20,891	\$ 20,891
Streets - Powell Bill	3,331	3,331
Beautification - McBee	74,777	74,777
Public Safety	109,811	109,811
Unassigned:	555,359	555,359
Total fund balances	<u>764,169</u>	<u>764,169</u>
Total liabilities and fund balances	<u>\$ 780,537</u>	

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,619,932
Other long term assets, including interest receivable on taxes, are not available to pay for current period expenditures and therefore are deferred in the funds.	13,733
Net pension asset and deferrals are not reported in the funds	(51,363)
Long-term liabilities and compensated absences are not due and payable in the current period and are also not reported in the funds.	(44,778)
Net position of governmental activities	<u>\$ 2,301,693</u>

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

**TOWN OF BAKERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	General Fund	Total Governmental Funds
Revenues:		
Ad valorem taxes	\$ 126,684	\$ 126,684
Unrestricted intergovernmental	95,408	95,408
Restricted intergovernmental	171,076	171,076
Permits and fees	9,103	9,103
Investment earnings	6,782	6,782
Miscellaneous	32,422	32,422
Total revenues	<u>441,475</u>	<u>441,475</u>
Expenditures:		
Current:		
General government	120,649	120,649
Public safety	196,509	196,509
Public works	64,226	64,226
Debt Service:		
Principal	21,514	21,514
Interest and other charges	1,485	1,485
Total expenditures	<u>404,383</u>	<u>404,383</u>
Net change in fund balance	37,092	37,092
Fund Balances:		
Beginning of year, July 1	727,077	727,077
End of year, June 30	<u>\$ 764,169</u>	<u>\$ 764,169</u>

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

**TOWN OF BAKERSVILLE, NORTH CAROLINA
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUNDS BALANCES - GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2020**

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

Net changes in fund balances - total governmental funds	\$ 37,092
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	
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 property taxes	(3,904)
Interest receivable on uncollected tax revenues	(1,022)
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(194,766)
Current year contributions to pension plan	10,669
Expenses related to compensated absences, pension deferrals and law enforcement officers separation allowance that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(25,509)
Advance refunding of bonds and principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not reported.	21,514
Total changes in net assets of governmental activities.	<u>\$ (155,926)</u>

**TOWN OF BAKERSVILLE, NORTH CAROLINA
GENERAL FUND - STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 124,500	\$ 124,500	\$ 126,684	\$ (2,184)
Unrestricted intergovernmental	94,500	94,500	95,408	(908)
Restricted intergovernmental	170,000	173,000	171,076	1,924
Permits and fees	7,200	7,200	9,103	(1,903)
Investment earnings	2,500	2,500	6,782	(4,282)
Miscellaneous	38,943	30,943	32,422	(1,479)
Total revenues	<u>437,643</u>	<u>432,643</u>	<u>441,475</u>	<u>(8,832)</u>
Expenditures:				
Current:				
General government	157,786	152,786	120,649	32,137
Public safety	233,071	210,072	196,509	13,563
Public works	66,786	66,786	64,226	2,560
Debt Service:				
Principal	-	21,514	21,514	-
Interest and other charges	-	1,485	1,485	-
Total expenditures	<u>457,643</u>	<u>452,643</u>	<u>404,383</u>	<u>48,260</u>
Revenues over (under) expenditures	(20,000)	(20,000)	37,092	(57,092)
Other Financing Sources (Uses):				
Proceeds from long term debt	-	-	-	-
Appropriations	20,000	20,000	-	20,000
Total other financing sources (uses)	<u>20,000</u>	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	37,092	<u>\$ (37,092)</u>
Fund Balance:				
Beginning of year, July 1			<u>727,077</u>	
End of year, June 30			<u>\$ 764,169</u>	

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

**TOWN OF BAKERSVILLE, NORTH CAROLINA
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2020**

	2020
Assets:	
Current Assets:	
Cash and cash equivalents	\$ 14,017
Accounts receivable (net)	41,768
Due from other governments	247,758
Restricted cash and equivalents	-
Total current assets	<u>303,543</u>
Noncurrent Assets:	
Land and other non-depreciable assets	7,221
Other capital assets, net of depreciation	5,564,905
Total noncurrent assets	<u>5,572,126</u>
Total assets	<u>\$ 5,875,669</u>
Deferred Outflows of Resources	
Contributions to pension plan	<u>\$ 5,593</u>
Liabilities:	
Current Liabilities:	
Accounts payable	\$ 242,709
Bonds, notes and loans payable	8,500
Total current liabilities	<u>251,209</u>
Noncurrent Liabilities:	
Net pension liability	10,618
Bonds, notes and loans payable	204,000
Total noncurrent liabilities	<u>214,618</u>
Total liabilities	<u>465,827</u>
Deferred Inflows of Resources	
Pension deferrals	<u>232</u>
Net Position:	
Net investment in capital assets	5,359,626
Unrestricted	55,577
Total net position	<u>\$ 5,415,203</u>

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

**TOWN OF BAKERSVILLE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET POSITION - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	2020
Operating Revenues:	
Charges for services	\$ 154,671
Other operating revenues	2,440
Total operating revenues	<u>157,111</u>
Operating Expenses:	
Water treatment and distribution	63,628
Wastewater collection and treatment	58,450
Depreciation	93,160
Total operating expenses	<u>215,238</u>
Operating income (loss)	<u>(58,127)</u>
Nonoperating Revenues (Expenses):	
Interest and investment revenue	12
Interest expense	<u>(10,473)</u>
Total nonoperating revenues (expenses)	<u>(10,461)</u>
Total nonoperating revenues (expenses) before transfers	<u>(68,588)</u>
Capital contributions	<u>1,453,283</u>
Change in net position	<u>1,384,695</u>
Net Position:	
Beginning of year, July 1	<u>4,030,508</u>
End of year, June 30	<u>\$ 5,415,203</u>

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

**TOWN OF BAKERSVILLE, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2020**

	2020
Cash Flows From Operating Activities:	
Cash received from customers	\$ 149,763
Cash paid for goods and services	(94,530)
Cash paid to or on behalf of employees for services	(23,692)
Other operating revenues	4,680
Net cash provided (used) by operating activities	<u>36,221</u>
Cash Flows From Capital and Related Financing Activities:	
(Acquisition) disposal and construction of capital assets	(1,504,783)
Principal paid on bond maturities and equipment contracts	(8,000)
Interest paid on bond maturities and equipment contracts	(10,474)
Capital contributions-Federal and State grant	1,435,266
Net cash provided (used) by capital and related financing activities	<u>(87,991)</u>
Cash Flows From Investing Activities:	
Interest and dividends	12
Net cash provided (used) by investing activities	<u>12</u>
Net increase in cash and cash equivalents	(51,758)
Cash and cash equivalents, July 1	65,775
Cash and cash equivalents, June 30	<u>\$ 14,017</u>
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (58,127)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	93,160
Changes in assets and liabilities:	
(Increase) decrease in operating accounts receivable	(5,189)
Increase (decrease) in operating accounts payable and accrued liabilities	176
Increase (decrease) in pension related deferrals	3,680
Increase (decrease) in customer deposits	2,521
Total adjustments	<u>94,348</u>
Net cash provided by operating activities	<u>\$ 36,221</u>

Supplemental information: Interest paid during the year was \$11,495

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Bakersville conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

Reporting Entity:

The Town of Bakersville is a municipal corporation, which is governed by an elected mayor and three-member council. The Town does not have component units that must be discretely presented.

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. 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 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 nonmajor funds, but the Town has no other funds at this time.

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. Nonoperating revenues, such as subsidies and investment earnings, result

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2020

from nonexchange transactions or ancillary activities.

The Town reports the following major governmental funds:

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

The Town reports the following major enterprise fund:

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

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. Internally dedicated resources are reported as general revenues; therefore, all taxes are reported as general revenues.

Proprietary funds distinguish between operating revenues/expenses and 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 revenue of the Water fund is charges to customers for services. Operating expenses for enterprise funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenues and expenses not meeting this definition are

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2020

reported as nonoperating revenues and expenses.

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as revenue because the amount is not susceptible to accrual.

At June 30, taxes receivable 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. Sales taxes are considered a shared revenue for the Town of Bakersville because the tax is levied by Mitchell County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then general revenues.

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

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2020

at the fiscal year-end. Project ordinances are adopted for the Enterprise Fund and Capital Project Fund. 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. The Finance Officer is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to \$1,000; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$1,000 must be approved by the governing board. During the year, several immaterial amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

Assets, Liabilities, Deferred Inflows and Outflows 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 the 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 nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT).

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

2. Cash and Cash Equivalents

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

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2020

<u>Town of Bakersville Restricted Cash</u>		
Governmental Activities:	Public Safety	110,767
	Beautification	73,537
	Streets – Powell Bill	3,331
Total restricted cash		\$ 187,635

3. 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, 2019.

4. 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.

5. 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 \$5,000 for all capital assets. 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. General infrastructure assets acquired prior to July 1, 2003, have not been recorded under the allowable exemption for Phase III governments in GASB Statement No. 34. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	50
Buildings	50
Improvements	15 – 20
Equipment and Furniture	5 – 7
Vehicles	3 – 5
Computer Equipment	3

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2020

6. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, Deferred Outflows of Resources, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2020 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, Deferred Inflows of Resources, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meet the criteria for this category - prepaid taxes and deferrals of pension expense that result from the implementation of GASB Statement 68 and GASB Statement 73.

7. 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, as well as issuance costs, 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 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.

8. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to forty hours or five days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and liability for compensated absences and 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. As this time is estimated to be used in the next fiscal year, it 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

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2020

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. No accrual for sick leave has been made because the Town has no obligation for accumulated sick leave until it is actually taken.

9. Net Position / Fund Balances

Net Position

Net position in the government-wide and proprietary fund financial 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 the laws or regulations of other governments, or imposed by law through State statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

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

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 – portion of fund balance that is restricted by State Statute {G.S. 159-8(a)}.
- 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.
- Restricted by Donor – portion of fund balance restricted for beautification, as well as another portion that is restricted for fire department expenditures.

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Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote of the governing body. Any changes or removal of specific purpose requires majority action by the governing body.

Assigned Fund Balance – portion of fund balance of the Town intended to be used 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. The governing body approves the appropriation; however, the budget ordinance authorizes the manager to modify the appropriation by resource within funds.

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

10. Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pension, and pension expense, information about the fiduciary net position of the Local Government 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 Bakersville's employer contributions are recognized when due and the Town of Bakersville has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

NOTE 2: DETAIL NOTES ON ALL FUNDS

A. *Assets*

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the 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

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confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits 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 deposits are properly secured.

At June 30, 2020 the Town's deposits had a carrying amount of \$206,290 and a bank balance of \$230,019. The bank balance was fully covered by federal depository insurance. The Town maintains a petty cash fund of \$248.

2. Investments

At June 30, 2020, the Town had \$556,854 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAm by Standard and Poor's as of June 30, 2020. The Town has no policy regarding credit risk. The Town's Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

3. Receivables

The amounts presented in the Balance Sheet are net of the allowances for doubtful accounts:

General Fund	
Taxes receivable	\$ 10,270
Accounts Receivable	<u>20,893</u>
	<u>\$ 31,163</u>

Receivables at the government-wide level at June 30, 2020, were as follows:

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	<u>Accounts</u>	<u>Taxes and Related Accrued Interest</u>	<u>Due from other Governments</u>	<u>Total</u>
Governmental Activities:				
General	\$ 799	\$ 15,933	\$ 20,093	\$ 36,825
Allowance for doubtful accounts	-	(2,200)	-	(2,200)
Total governmental activities	<u>\$ 799</u>	<u>\$ 13,733</u>	<u>\$ 20,093</u>	<u>\$ 34,625</u>
Business-Type Activities				
Water fund	\$ 41,769	\$ -	\$ 247,762	\$ 289,531
Allowance for doubtful accounts	-	-	-	-
Total business-type activities	<u>\$ 41,769</u>	<u>\$ -</u>	<u>\$ 247,762</u>	<u>\$ 289,531</u>
	<u>Governmental</u>	<u>Business-Type</u>		
Local option sales tax	\$ 8,877	\$ -		
Vehicle tax	1,137	-		
Government CDBG grant		\$ 245,757		
Sales tax	1,543	2,005		
Fire tax	8,536	-		
	<u>\$ 20,093</u>	<u>\$ 247,762</u>		

4. Capital Assets

Primary Government

Capital asset activity for the primary government for the year ended June 30, 2020 was as follows:

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	<u>June 30, 2019</u>	<u>Additions</u>	<u>Deductions</u>	<u>June 30, 2020</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	\$ 480,856	\$ -	\$ -	\$ 480,856
Total capital assets not being depreciated	<u>480,856</u>	<u>-</u>	<u>-</u>	<u>480,856</u>
Capital assets being depreciated:				
Buildings	656,196	-	-	656,196
Equipment	1,925,312	-	-	1,925,312
Vehicles	662,300	-	-	662,300
Infrastructure	74,762	-	-	74,762
Total capital assets being depreciated	<u>3,318,570</u>	<u>-</u>	<u>-</u>	<u>3,318,570</u>
Less accumulated depreciation for:				
Buildings	178,051	13,124	-	191,175
Equipment and furniture	1,378,738	127,889	-	1,506,627
Vehicles	390,991	50,534	-	441,525
Infrastructure	36,948	3,218	-	40,166
Total accumulated depreciation	<u>1,984,728</u>	<u>\$ 194,765</u>	<u>\$ -</u>	<u>2,179,493</u>
Total capital assets being depreciated, net	<u>1,333,842</u>			<u>1,139,077</u>
Governmental activity capital assets, net	<u>\$ 1,814,698</u>			<u>\$ 1,619,933</u>

Depreciation was charged to governmental functions as follows:

General Government	\$ 7,530
Public Safety	179,944
Public Works	<u>7,291</u>
Total depreciation expense	<u>\$194,765</u>

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	<u>June 30, 2019</u>	<u>Additions</u>	<u>Transfers</u>	<u>June 30, 2020</u>
Business-Type Activities:				
Water Fund:				
Capital Assets Not Being Depreciated:				
Land	\$ 7,221	\$ -	\$ -	\$ 7,221
Construction in progress	539,109		539,109	-
Total capital assets not being depreciated	<u>546,330</u>	<u>-</u>	<u>539,109</u>	<u>7,221</u>
Capital Assets Being Depreciated:				
Water and sewer systems	5,486,299	1,504,783	(539,109)	7,530,191
Vehicles	24,013	-	-	24,013
Infrastructure	6,250	-	-	6,250
Total capital assets being depreciated	<u>5,516,567</u>	<u>1,504,783</u>	<u>(539,109)</u>	<u>7,560,454</u>
Less Accumulated depreciation for:				
Water and sewer systems	1,872,119	93,161	-	1,965,280
Vehicles	24,018	-	-	24,018
Infrastructure	6,251	-	-	6,251
Total accumulated depreciation	<u>1,902,388</u>	<u>\$ 93,161</u>	<u>\$ -</u>	<u>1,995,549</u>
Total capital assets being depreciated, net	<u>3,614,179</u>			<u>5,564,905</u>
Business-type capital assets, net	<u>\$ 4,160,509</u>			<u>\$ 5,572,126</u>

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2020, were as follows:

	<u>Vendors</u>	<u>Other</u>	<u>Total</u>
Governmental Activities:			
General	\$ -	\$ 5,294	\$ 5,294
Total governmental activities	<u>\$ -</u>	<u>\$ 5,294</u>	<u>\$ 5,294</u>
Business-Type Activities:			
Water	<u>\$242,709</u>	<u>\$ -0-</u>	<u>\$242,709</u>
Total business-type activities	<u>\$242,709</u>	<u>\$ -0-</u>	<u>\$242,709</u>

2. Pension Plan Obligations

a) Local Government Retiree's System

Plan Description The Town of Bakersville 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. LGER membership is comprised of general employees and law enforcement officers (LEOs) of participating local

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government 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, and 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, or by calling (919) 981-5454.

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 services. 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 year 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 member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon the actuarial gains of the plan.

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

Contributions Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. The Town of Bakersville employees are required to contribution 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Bakersville's contractually required contribution rate for the year ended June 30, 2020 was 9.7% of compensation for law enforcement officers and 8.95% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is

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expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan for the Town of Bakersville were \$10,669 for the year ended June 30, 2020.

Refunds of Contributions – Town employees who have terminated service as a contributing member of LGERS may file an application for 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 employee 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, 2020, the Town reported a liability of \$66,361 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2019. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2018. The total pension liability was then rolled forward to the measurement date of June 30, 2019 utilizing update procedures incorporating the actuarial assumptions. The Town’s proportion of the net pension asset was based on a projection of the Town’s long term share of future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2020, the Town’s proportion was .00243%, which was an increase of .00026% from its proportion measured as of June 30, 2019.

For the year ended June 30, 2020, the Town recognized pension expense of \$29,192. At June 30, 2020, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows	Deferred Inflows
Differences between expected and actual experience	\$ 11,363	\$
Changes of assumptions	10,816	
Net difference between projected and actual earnings on pension plan investments	1,618	
Changes in proportion and differences between employer contributions and proportionate share of contributions	488	1,447
Town contributions subsequent to the measurement date	10,669	
Total	\$ 34,954	\$ 1,447

\$10,669 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pension will be recognized in pension expense as follows:

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Year ended June 30:

2021	11,525
2022	3,212
2023	6,171
2024	1,932
2025	-
Thereafter	\$22,840

Actuarial Assumptions. The total pension liability in the December 31, 2018 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 US population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2018 valuation were based on results of an actuarial experience study for the period January 1, 2010 through December 31, 2016.

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, 2019 are summarized in the following table:

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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 2019 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%. All rates of return and inflation are annualized.

Discount rate. The discount rate used to measure the total pension liability was 7.0%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town’s proportionate share of the net pension asset to changes in the discount rate. The following presents the Town’s proportionate share of the net pension asset calculated using the discount rate of 7.00 percent, as well as what the Town’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.00 percent) or one percentage point higher (8.00 percent) than the current rate:

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	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 151,781	\$ 66,361	\$ (4,639)

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

b. Law Enforcement Officers Special Separation Allowance

1. Plan Description. The Town of Bakersville administers a public employee retirement system (the Separation Allowance), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to 0.85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

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All full-time Town law enforcement officers are covered by the Separation Allowance.

At December 31, 2018, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	0
Terminated plan members entitled to but not yet receiving benefits	0
Active plan members	1
Total	<u>1</u>

2. Summary of Significant Accounting Policies

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

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

3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2019 valuation. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.5 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.26 percent

The discount rate used to measure TPL is the weekly average of Bond Buyer General Obligation 20 year Municipal Bond Index determined at the end of each month.

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

3. Contributions.

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned on a pay as you go basis through appropriations made in the General Fund operating budget. There were no contributions made by employees. The Town’s obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration

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costs of the Separation Allowance are financed through investment earnings. The Town paid out no benefits for the reporting period.

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

At June 30, 2020, the Town reported a total pension liability of \$26,749. The total pension liability was measured as of December 31, 2019 based on a December 31, 2018 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2019 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2020, the Town recognized pension expense of \$2,041

	<u>Outflows of Resources</u>	<u>Inflows of Resources</u>
Differences between expected and actual experience	\$ 5,984	\$ 3,730
Changes of assumptions	1,423	694
Town benefit payments and plan administrative expense made subsequent to the measurement date	-	-
Total	<u>\$ 7,407</u>	<u>\$ 4,424</u>

No amount reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

For the year ended June 30:

2021	\$ 531
2022	\$ 531
2023	\$ 580
2024	\$ 591
2025	\$ 750
Thereafter	\$ 0

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.26 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.26 percent) or 1-percentage-point higher (4.26 percent) than the current rate:

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	1% Decrease (2.26%)	Discount Rate (3.26%)	1% Increase (4.26%)
Total pension liability	\$ 29,018	\$ 26,749	\$ 24,605

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

Total Pension Liability as of December 31, 2018	\$ 17,174
Changes for the year:	
Service Cost at End of Year	885
Interest	625
Change in benefit terms	0
Difference between expected and actuarial Experience	7,236
Changes of assumptions and other inputs	829
Benefit payments	0
Other	<u>0</u>
Net changes	<u>9,575</u>
Total Pension Liability as of December 31, 2019	\$ 26,749

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

The actuarial assumptions used in the December 31, 2019 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2016.

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:

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	LGERS	LEOSSA	Total
Pension Expense	\$ 29,192	\$ 2,041	\$ 31,233
Pension Liability	66,361	26,749	93,110
Proportionate share of the net pension liability	0.24300%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	11,363	5,984	17,347
Changes of assumptions	10,816	1,423	12,239
Net difference between projected and actual earnings on plan investments	1,618	-	1,618
Changes in proportion and differences between contributions and proportionate share of contributions	488	-	488
Benefit payments and administrative costs paid subsequent to the measurement date	10,669	-	10,669
Deferred of Inflows of Resources			
Differences between expected and actual experience		3,730	3,730
Changes of assumptions	-	694	694
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	1,447	-	1,447

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are immediately vested. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2019 were \$2,491, which consisted entirely of contributions from the Town.

TOWN OF BAKERSVILLE, NORTH CAROLINA
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3. Deferred Outflows and Inflows of Resources

Contributions to the pension plan in the current fiscal year were \$10,669. Total deferred outflows were \$42,361.

The balance in deferred inflows of revenues at year-end is composed of the following:

	<u>Deferred Inflows</u>	<u>Unearned Revenues</u>
Prepaid tax	\$ 804	\$ 804
Taxes receivable	-	10,270
Pension deferrals	<u>41,557</u>	<u>-</u>
	<u>\$ 42,361</u>	<u>\$ 11,074</u>

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destructions of assets; errors and omissions; injuries to employees; and natural disasters. The Town maintains property/liability insurance as follows: general and automobile liability (\$1,000,000 each), automobile physical damage (actual), property-real and personal (\$2,657,908), faithful performance bonds (\$10,000), and public officials errors and omissions (\$1,000,000). Settled claims resulting from these risks have not exceeded coverage in any of the past three years. The Town participates in a self-funded risk financing pool administered by the North Carolina League of Municipalities. Through this pool, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to a \$2 million lifetime limit. The pool is 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 pool is reinsured for annual employee health claims in excess of \$150,000. 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 the total insurance values.

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

The Town carries flood insurance through The Standard Fire Insurance Company. Total coverage in the amount of \$11,900 per structure covers the building and none of the contents.

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

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2020

bond. The Finance Officer and the Tax Collector are each individually bonded for \$100,000.

Long-Term Obligations

Installment Purchase

The Town has entered into various direct placement installment purchase contracts comprised of the following:

- July 28, 2016, for the purchase of a ladder fire truck. The agreement was modified to add an additional \$38,022 to the principal balance in July 2018. This additional principal was used to purchase other public safety equipment. The agreement requires three annual payments of \$22,998 beginning on July 20, 2019, including an interest rate of 2.25%.

The future minimum payments of the direct placement installment purchases as of June 30, 2020, including \$1,510 of interest, are as follows:

<u>30-June</u>	<u>Long Term Debt</u>
2021	22,998
2022	22,998
Total	\$45,996

General Obligation Indebtedness

The general obligation bonds issues to finance the construction of facilities utilized in the operations of the water and sewer system and which are being retired by its resources are reported as long-term debt in the Water and Sewer Fund. All general obligation bonds are collateralized by the faith, credit, and taxing power of the Town. In the event of a default, the Town agrees to pay to the purchaser, on demand, interest on any and all amounts due and owing by the Town under related agreements. Principal and interest requirements are appropriated when due.

TOWN OF BAKERSVILLE, NORTH CAROLINA
Notes to the Financial Statements
June 30, 2020

Year Ending 30-Jun	Principal	Interest	Total
2021	8,500	10,094	18,594
2022	8,500	9,690	18,190
2023	9,000	9,286	18,286
2024	9,500	8,859	18,359
2025	10,000	8,408	18,408
2026-2030	54,500	34,722	89,222
2031-2035	66,000	20,687	86,687
2036-2038	46,500	4,465	50,965
			-
Total	<u>\$ 212,500</u>	<u>\$ 106,211</u>	<u>\$ 318,711</u>

Changes in Long-Term Liabilities

	Balance June 30, 2019	Increases	Decreases	Balance June 30, 2020	Current Portion of Balance
Governmental activities:					
Compensated absences	\$ 2,366		\$ 292	\$ 2,074	\$ 2,074
LGERS pension liability	45,817	13,244		59,061	-
LEO pension liability	16,810		-	16,810	-
Direct placement installment purchase contract	66,000	-	21,514	44,486	21,513
Governmental activity long-term liab	<u>\$ 130,993</u>	<u>\$ 13,244</u>	<u>\$ 21,806</u>	<u>\$ 122,431</u>	<u>\$ 23,587</u>
Business-type activities:					
Direct placement general obligation bonds	\$ 220,500	\$ -	\$ 8,000	\$ 212,500	\$ 8,500
LGERS pension liability	\$ 5,663	1,637	-	\$ 7,300	
Business-type activity long-term liab	<u>\$ 226,163</u>	<u>\$ -</u>	<u>\$ 8,000</u>	<u>\$ 219,800</u>	<u>\$ 8,500</u>

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	\$ 764,169
Less:	
Stabilization by State Statute	20,891
Beautification – McBee	74,777
Public Safety	109,811
Powell Bill funds	3,331
Remaining Fund Balance	<u>\$ 555,359</u>

NOTE 3: JOINTLY GOVERNED ORGANIZATION

The Town, in conjunction with seven counties and eighteen municipalities, established the Region D Council of Governments (Council). The participating governments established the Council to coordinate various funding received from Federal and State agencies. Each participating government appoints one member to the Council's governing board, and this governing body selects the management and determines the budget and financing requirements of the Council. The Town paid membership fees of \$510 to the Council during the fiscal year ended June 30, 2020.

NOTE 4: 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 monies to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant monies.

NOTE 5: SUBSEQUENT EVENTS

Management has evaluated subsequent events through November 6, 2020, the date which the financial statements were available to be issued.

Town of Bakersville
Proportionate Share of Net Pension (Liability) Asset
Required Supplementary Information
Last Seven Fiscal Years

Local Government Employees Retirement System

	2020	2019	2018	2017	2016	2015	2014
Town's proportion of the net pension liability (asset) (%)	0.002430	0.002170	0.002250	0.002210	0.001920	0.002000	0.002000
Town's proportion of the net pension liability (asset) (\$)	66,361	51,480	34,374	46,904	8,617	(11,913)	25,313
Town's covered-employee payroll	132,837	124,207	121,672	114,891	111,575	72,715	72,715
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	0.500	0.414	0.283	0.408	0.077	(0.164)	0.350
Plan fiduciary net position as a percentage of the total pension liability	0.9200	0.9418	0.9147	0.9809	0.9879	1.0264	0.9435

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

Town of Bakersville
Schedule of Contributions to the Local Government Employees' Retirement System
Required Supplementary Information
Last Seven Fiscal Years

Local Government Employees Retirement System

	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	-	10,602	9,540	9,121	7,851	8,020	5,141
Contributions in relation to the contractually required contribution	-	10,602	9,540	9,121	7,851	8,020	5,141
Town's covered-employee payroll	-	132,837	124,207	121,672	114,891	111,575	72,716
Contributions as a percentage of covered-employee payroll		0.0798	0.0768	0.0750	0.0683	0.0719	0.0707

See the accompanying Independent Auditor's Report.

Town of Bakersville, North Carolina
Schedule of Changes in Total Pension Liability
Law Enforcement Officers' Special Separation Allowance
June 30, 2020

	2020	2019	2018	2017
Beginning balance	\$ 17,174	\$ 22,151	\$ 18,977	\$ 17,988
Service Cost	885	744	865	900
Interest on the total pension liability	625	700	733	642
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	7,236	(5,682)	118	-
Changes of assumptions or other inputs	829	(739)	1,458	(553)
Benefit payments	-	-	-	-
Other changes	-	-	-	-
Ending balance of the total pension liability	<u>\$ 26,749</u>	<u>\$ 17,174</u>	<u>\$ 22,151</u>	<u>\$ 18,977</u>

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

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

	2019	2018	2018	2017
Total pension liability	\$ 26,749	\$ 17,174	\$ 22,151	\$ 18,977
Covered payroll	41,517	40,914	41,239	39,915
Total pension liability as a percentage of covered payroll	64.43%	41.98%	53.71%	47.54%

Notes to the schedules:

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

Town of Bakersville, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--
For the Fiscal Year Ended June 30, 2020

	2020		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Ad valorem:			
Taxes	\$	\$ 125,338	\$
Penalties and interest		1,346	
Total	<u>124,500</u>	<u>126,684</u>	<u>2,184</u>
Unrestricted intergovernmental:			
Local option sales tax		53,889	
Tax refunds		1,270	
Solid waste		362	
Utility franchise tax		39,887	
Total	<u>94,500</u>	<u>95,408</u>	<u>908</u>
Restricted intergovernmental:			
On behalf of - Fire and Rescue		156,523	
Powell Bill allocation		14,553	
Office of State Fire Marshall		0	
FEMA grant		0	
Total	<u>173,000</u>	<u>171,076</u>	<u>(1,924)</u>
Permits and fees:			
Court fees		122	
Citations		200	
Garbage fees		8,781	
Total	<u>7,200</u>	<u>9,103</u>	<u>1,903</u>
Investment earnings	<u>2,500</u>	<u>6,782</u>	<u>4,282</u>
Miscellaneous:			
Contribution		20,903	
Other		11,519	
Total	<u>30,943</u>	<u>32,422</u>	<u>1,479</u>
Total revenues	<u>432,643</u>	<u>441,475</u>	<u>8,832</u>

See the accompanying independent auditor's report.

Town of Bakersville, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--
For the Fiscal Year Ended June 30, 2020

	2020		Variance Favorable (Unfavorable)
	Budget	Actual	
Expenditures:			
General government -			
Administration			
Salaries and employee benefits		38,391	
Other operating expenditures		82,258	
Total	152,786	120,649	32,137
Total general government	152,786	120,649	32,137
Public safety -			
Police Department:			
Salaries and employee benefits		53,113	
Other operating expenditures		7,658	
Total	63,571	60,771	2,800
Fire:			
Salaries and employee benefits		27,937	
Other operating expenditures		107,801	
Capital outlay			
Total	146,500	135,738	10,762
Total public safety	210,071	196,509	13,562
Public works:			
Streets and highways:			
Salaries and employee benefits		22,122	
Powell Bill expense		17,897	
Other operating expenditures		13,894	
Total	53,913	53,913	-
Health and Sanitation			
Salaries and employee benefits		7,878	
Other operating expenditures		2,435	
Total	12,873	10,313	2,560
Total public works	66,786	64,226	2,560
Debt service -			
Principal retirement		21,514	

See the accompanying independent auditor's report.

Town of Bakersville, North Carolina

General Fund

Statement of Revenues, Expenditures and Changes in Fund Balances --Budget and Actual--
For the Fiscal Year Ended June 30, 2020

	2020		Variance Favorable (Unfavorable)
	Budget	Actual	
Interest and fees		1,485	
Total debt service	23,000	22,999	1
Total expenditures	452,643	404,383	48,260
Excess of revenues and other sources over (under) expenditures and other uses	(20,000)	37,092	(57,092)
Appropriated fund balance	20,000	-	(20,000)
Excess of revenues, other sources and appropriated fund balance over (under) expenditures and other uses	\$ -	37,092	\$ 37,092
Fund balances - beginning of year		727,077	
Fund balances - end of year		\$ 764,169	

See the accompanying independent auditor's report.

Town of Bakersville, North Carolina
Water & Sewer Fund
Schedule of Revenues and Expenditures--Budget and Actual-- (Non-GAAP)
For the Fiscal Year Ended June 30, 2020

	2020		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Operating revenue			
Water sales	\$	\$ 82,853	\$
Sewer charges		69,578	
Taps and fees		2,240	
Other		2,440	
Total operating revenues	<u>142,500</u>	<u>157,111</u>	<u>14,611</u>
Non operating revenue			
Interest on investments		12	
Federal and State grants		1,453,283	
Total operating revenues	<u>2,051,000</u>	<u>1,453,295</u>	<u>(597,705)</u>
Total revenues	<u>2,193,500</u>	<u>1,610,406</u>	<u>(583,094)</u>
Expenditures:			
Water department			
Salaries and employee benefits		27,372	
Utilities		14,297	
Maintenance and repairs		12,243	
Supplies and materials		3,680	
Other departmental expenditures		6,038	
Total general government	<u>73,577</u>	<u>63,630</u>	<u>9,947</u>
Sewer department			
Utilities		10,507	
Maintenance and repairs		29,134	
Supplies and materials		307	
Contract services		14,700	
Other departmental expenditures		3,800	
Total general government	<u>50,448</u>	<u>58,448</u>	<u>(8,000)</u>
Budgetary appropriations			
Principal retirement		8,000	
Interest and fees		10,473	
Capital outlay		1,504,783	
Total debt service and other	<u>2,069,475</u>	<u>1,523,256</u>	<u>546,219</u>
Total expenditures	<u>2,193,500</u>	<u>1,645,334</u>	<u>548,166</u>
Revenue over (under) expenditures	<u>-</u>	<u>(34,928)</u>	<u>562,777</u>

See the accompanying Independent Auditor's Report.

Town of Bakersville, North Carolina
Water & Sewer Fund
Schedule of Revenues and Expenditures--Budget and Actual-- (Non-GAAP)
For the Fiscal Year Ended June 30, 2020

	2020		Variance Favorable (Unfavorable)
	Budget	Actual	
Reconciliation from Budgetary Basis (Modified Accrual \$ to Full Accrual:	<u>-</u>	<u>(34,928)</u> \$	<u>(34,928)</u>
Capital outlay		1,504,783	
Principal retirement		8,000	
Depreciation		(93,160)	
Total reconciling items:		<u>1,419,623</u>	
Change in net position		<u>\$ 1,384,695</u>	

Town of Bakersville, North Carolina
Capital Projects Fund - Water and Sewer
Schedule of Revenue, Expenditures and Changes in Fund Balances--
Budget and Actual (Non-GAAP)
From Inception and for the Fiscal Year Ended June 30, 2020

	Project Authorization	Prior Years	Actual Current Year	Total To Date	Variance Favorable (Unfavorable)
Revenues:					
Restricted intergovernmental revenues					
CDBG #15-I-2760	\$ 1,999,500	\$ 539,108	\$ -	\$ 539,108	\$ (1,460,392)
Total revenues	<u>1,999,500</u>	<u>539,108</u>	<u>-</u>	<u>539,108</u>	<u>(1,460,392)</u>
Expenditures					
Public Water Improvements	1,652,625	232,983	-	232,983	1,419,642
Engineering	343,375	271,125	-	271,125	72,250
Administration and Environmental	55,000	35,000	-	35,000	20,000
Total expenditures	<u>2,051,000</u>	<u>539,108</u>	<u>-</u>	<u>539,108</u>	<u>1,511,892</u>
Revenues over (under) expenditures	(51,500)	-	-	-	51,500
Other financing sources and uses					
Transfers in (out) - general fund	51,500	-	51,500	51,500	-
Total other financing sources	<u>51,500</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,500</u>

Town of Bakersville, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2020

	Uncollected Balance June 30, 2019	Additions	Collections and Credits	Uncollected Balance June 30, 2020
	\$ -	\$ 128,443	\$ 124,964	\$ 3,479
2018 - 2019	3,205	-	1,346	1,859
2017 - 2018	1,616	-	347	1,269
2016 - 2017	1,140	-	367	773
2015 - 2016	1,372	-	291	1,081
2014 - 2015	1,225	-	190	1,035
2013 - 2014	1,297	-	19	1,278
2012 - 2013	1,081	-	22	1,059
2011 - 2012	638	-	-	638
2010 - 2011	1,314	-	1,314	-
	<u>\$ 11,574</u>	<u>\$ 128,443</u>	<u>\$ 128,860</u>	<u>\$ 12,471</u>
Less: allowance for uncollectible accounts: General Fund				<u>(2,200)</u>
Ad valorem taxes receivable - net General Fund				<u>\$ 10,271</u>
Reconcilement with revenues:				
Ad valorem taxes - General Fund				<u>\$ 126,684</u>
Reconciling items:				
Write off				3,522
Interest collected				<u>(1,346)</u>
Total reconciling items				<u>2,176</u>
Total collections and credits				<u>\$ 128,860</u>

Town of Bakersville, North Carolina
Analysis of Current Tax Levy
Town-Wide Levy
For the Fiscal Year Ended June 30, 2020

	Town-wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current year rate	\$ 31,327,560	0.41	\$ 128,443	\$ 111,345	\$ 17,098
Total	<u>31,327,560</u>		<u>128,443</u>	<u>111,345</u>	<u>17,098</u>
Total property valuations	<u>31,327,560</u>				
Net levy			128,443	111,345	17,098
Uncollected taxes at June 30, 2020			<u>3,479</u>	<u>3,479</u>	<u>-</u>
Current year's taxes collected			\$ <u>124,964</u>	\$ <u>107,866</u>	\$ <u>17,098</u>
Current year's collection percentage			<u>97.29%</u>	<u>96.88%</u>	<u>100.00%</u>

See the accompanying Independent Auditor's Report.



S. Gillespie, P.A.

Certified Public Accountant

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, and each major fund of the Town of Bakersville (the Town), as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town of Bakersville's basic financial statements, and have issued our report thereon dated November 6, 2020.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or

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a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's

financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

S. Gillespie, P.A.
Spruce Pine, North Carolina
November 6, 2020



S. Gillespie, P.A.

Certified Public Accountant

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; In accordance with OMB Uniform Guidance; and the State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Bakersville, North Carolina, compliance with the types of compliance requirements described in the *OMB Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town's major federal programs for the year ended June 30, 2020. The Town of Bakersville's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Bakersville's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by

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the Comptroller General of the United States; and the audit requirements of Title 2, U.S. *Code of Federal Regulations*, Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) and the State Single Audit Implementation Act. Those standards, the Uniform Guidance, and the State Single Audit Implementation Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Bakersville's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Town of Bakersville's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Bakersville complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2020.

Report on Internal Control Over Compliance

Management of the Town of Bakersville is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Bakersville's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A

material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

S Gillespie, P.A

Spruce Pine, North Carolina
November 6, 2020

TOWN OF BAKERSVILLE, NORTH CAROLINA
Schedule of Findings and Responses
For the Year Ended June 30, 2020

I. Summary of Auditor’s Results

- A. An unqualified opinion was issued on the financial statements of Town of Bakersville, North Carolina.
- B. Our audit of the financial statements disclosed no significant deficiencies in internal controls.
- C. Our audit of the financial statements disclosed no instance of noncompliance with laws, regulations, and the provisions of contracts and grant agreements that is material to the financial statements.
- D. Our audit of compliance with types of compliance requirements applicable to the Town’s major programs disclosed no significant deficiencies in internal controls over major programs.
- E. An unqualified opinion was issued on the Town of Bakersville’s compliance with the types of compliance requirements applicable to its major federal and State programs.
- F. There were no audit findings relative to the major federal and State award programs for the Town of Bakersville.
- G. Major federal programs for the Town of Bakersville for the fiscal year ended June 30, 2020 are:

<u>Program Name</u>	<u>CFDA #</u>
CDBG Infrastructure Grant 15-I-2760	14.228

- H. There were no major State programs for the Town of Bakersville for the fiscal year ended June 30, 2020.
- I. The threshold for determining Type A programs for Town of Bakersville is \$750,000.
- J. Town of Bakersville did not qualify as a low risk auditee under Section 200.520 of the Uniform Guidance.

II. Findings related to the Audit of the Financial Statements of Town of Bakersville, North Carolina

None

III. Findings and Questioned Costs Related to the Audit of Federal and State Awards

None

IV. Status of Prior Year Findings

None

Town of Bakersville, North Carolina
Schedule of Expenditures of Federal and State Financial Awards
For the Fiscal Year Ended June 30, 2020

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State Pass Through Grantor's Number</u>	<u>Expenditures</u>
Department of Housing and Urban Development Passed through the N.C. Housing and Urban Development Community Block Grant - Rural Infrastructure Total U.S. Department of Housing and Urban Development	14.228	15-I-2760	1,453,283
			<u>1,453,283</u>
Total Federal			<u>1,453,283</u>
Total Federal and State			\$ <u><u>1,453,283</u></u>

Notes to Schedule of Expenditures of Federal and State Awards

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Town of Bakersville under the programs of the federal government and the State of North Carolina for the year ended June 30, 2020. The information in this SEFSA is presented in accordance with the requirements of Office of Management and Budget (OMB) Uniform Guidance and the State Single Audit Implementation Act. Because the SEFSA presents only a select portion of the operations of the Town of Bakersville., it is not intended to and does not present the financial position, changes in net assets or cash flows of the Town of Bakersville.

Note 2: Summary of Significant Accounting Policies

Expenditures reported in the SEFSA are reported on the modified accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-21, Cost Principles for Educational Institutions or cost principles contained in Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards, wherein certain types of expenditures are not allowable or are limited as to reimbursements.

See the accompanying Independent Auditors' Report