

TOWN OF SPARTA, NORTH CAROLINA

FINANCIAL STATEMENTS

JUNE 30, 2020

**Town of Sparta, North Carolina
Table of Contents
June 30, 2020**

<u>Exhibit</u>		<u>Page</u>
	Financial Section:	
	Members of Town Council and Town Officials	1
	Independent Auditor's Report	2-4
	Management's Discussion and Analysis	5-14
	Basic Financial Statements:	
	Government-wide Financial Statements:	
1	Statement of Net Position	15
2	Statement of Activities	16
	Fund Financial Statements:	
3	Balance Sheet – Governmental Funds	17
4	Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	18-19
5	Statement of Revenues, Expenditures, and Changes in Fund Balance – Annual Budget and Actual – General Fund	20
6	Statement of Fund Net Position – Proprietary Fund	21
7	Statement of Revenues, Expenses, and Changes in Fund Net Position – Proprietary Fund	22
8	Statement of Cash Flows – Proprietary Fund	23-24
	Notes to the Financial Statements	25-56
	Required Supplemental Financial Data:	
	Schedule of the Proportionate Share of the Net Pension Liability (Asset) – Local Government Employees' Retirement System	57
	Schedule of Contributions – Local Government Employees' Retirement System	58

	<u>Page</u>
Schedule of Changes in Total Pension Liability – Law Enforcement Officers’ Special Separation Allowance	59
Schedule of Total Pension Liability as a Percentage of Covered Payroll	60
Individual Fund Schedules:	
Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual – General Fund	61-63
Combining Balance Sheet for Non-Major Governmental Funds	64
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance for Non-Major Governmental Funds	65
Schedules of Revenues and Expenditures – Budget and Actual (Non-GAAP):	
Water and Sewer Fund	66-67
Water and Sewer Capital Projects Fund – Crestview Pump Station	68
Water and Sewer Capital Projects Fund – Water Line Replacement	69
Other Schedules:	
Schedule of Ad Valorem Taxes Receivable	70
Analysis of Current Tax Levy – Town-Wide Levy	71
Compliance Section:	
Report On Internal Control Over Financial Reporting And On Compliance and Other Matters Based On An Audit Of Financial Statements Performed In Accordance With <i>Government Auditing Standards</i>	72-73
Report On Compliance For Each Major Federal Program And Internal Control Over Compliance; In Accordance With Uniform Guidance; and the State Single Audit Implementation Act	74-75
Schedule of Expenditures of Federal and State Awards	76
Schedule of Findings and Questioned Costs	77-78
Corrective Action Plan	79
Summary Schedule of Prior Audit Findings	80

FINANCIAL SECTION

TOWN OF SPARTA, NORTH CAROLINA
JUNE 30, 2020

TOWN COUNCIL MEMBERS

Wes Brinegar, Mayor
Mike Parlier, Mayor Pro Tem
Cole Edwards
John Brady
Terry McGrady
Milly Richardson

ADMINISTRATIVE AND FINANCIAL STAFF

Ryan Wilmoth, Town Manager
Peggy Choate, Town Clerk/Finance Officer



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Sparta, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town of Sparta ABC Board were not audited in accordance with Government Auditing Standards.

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

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

Opinions

In our opinion, based on our audit, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Sparta, North Carolina as of June 30, 2020, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 5 through 14 and the Local Government Employees' Retirement System's Schedules of Proportionate Share of the Net Pension Liability (Asset) and Contributions on pages 57 and 58, respectively, and the Law Enforcement Officers' Special Separation Allowance schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll on pages 59 and 60 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The combining and individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures performed as described above, the combining and individual fund 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 December 3, 2020 on our consideration of Town of Sparta's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Town of Sparta's internal control over financial reporting and compliance.

Handwritten signature of Gibson + Company, P.A. in cursive script.

Winston-Salem, North Carolina
December 3, 2020

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

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

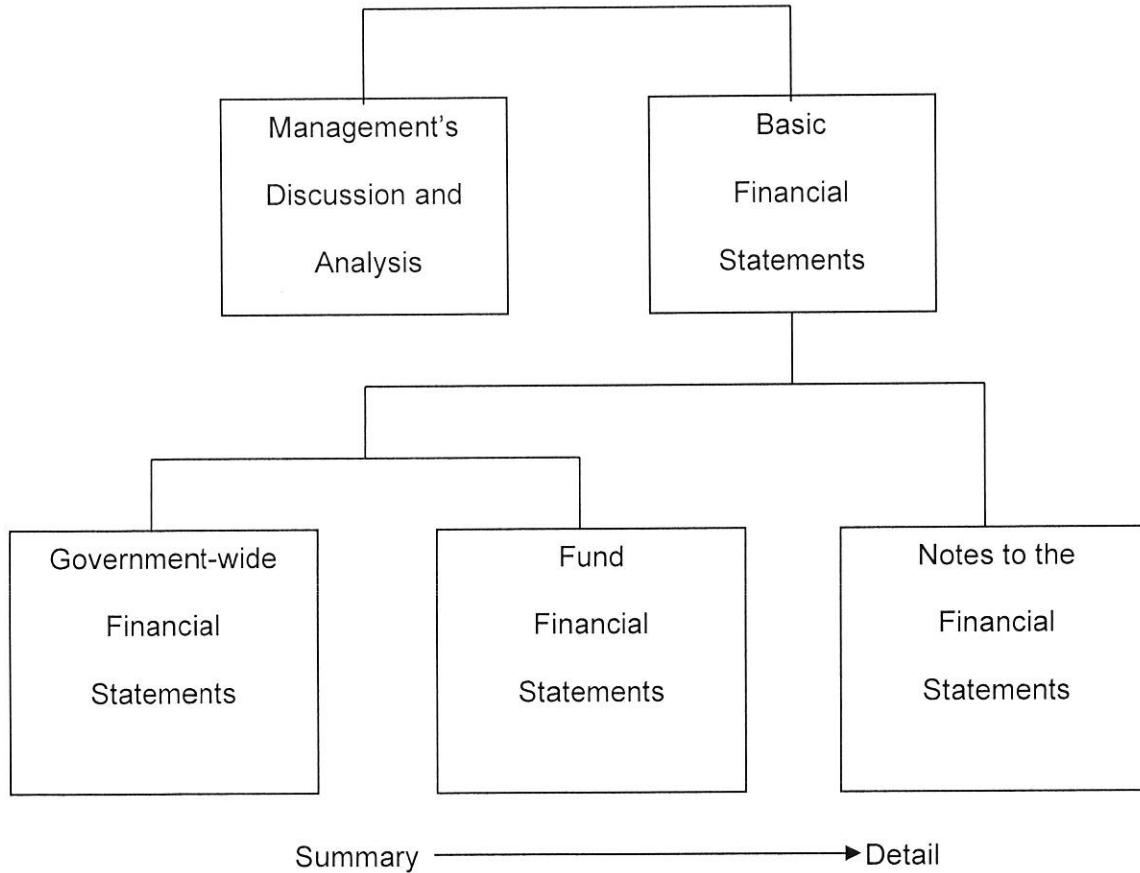
- The assets and deferred outflows of resources of the Town of Sparta exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$9,274,930 (*net position*).
- The government's total net position increased by \$979,258 primarily due to an increase in the governmental activities and business-type activities net position.
- As of the close of the current fiscal year, the Town of Sparta's governmental funds reported combined ending fund balances of \$2,360,521 with a net increase of \$385,793 in fund balance. Approximately 30.50 percent of this total amount, or \$719,837 is non-spendable, restricted or assigned.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,640,684 or 128.87 percent of total general fund expenditures for the fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Sparta's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Sparta.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

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

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

Government-Wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and State and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town of Sparta. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town. The Town exercises control over the Board by appointing its members and the Board is required to distribute its profits to the Town.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Sparta, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of Town of Sparta can be divided into two categories: governmental funds and proprietary funds.

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

Management Discussion and Analysis

Town of Sparta

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

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

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

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Sparta's progress in funding its obligation to provide pension and other postemployment benefits to its employees. Required supplementary information can be found beginning on page 57 of this report.

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

Management Discussion and Analysis
Town of Sparta

Government-Wide Financial Analysis

Town of Sparta's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2020	2019	2020	2019	2020	2019
Current and other assets	\$ 2,412,537	\$ 2,043,745	\$ 1,838,973	\$ 3,870,797	\$ 4,251,510	\$ 5,914,542
Capital assets	1,394,612	1,429,608	8,034,169	4,304,259	9,428,781	5,733,867
Deferred outflows of resources	92,288	91,998	-	-	92,288	91,998
Total assets and deferred outflows of resources	3,899,437	3,565,351	9,873,142	8,175,056	13,772,579	11,740,407
Long-term liabilities outstanding	177,095	150,844	651,136	277,732	828,231	428,576
Other liabilities	45,430	62,790	3,613,577	2,941,929	3,659,007	3,004,719
Deferred inflows of resources	10,411	11,440	-	-	10,411	11,440
Total liabilities and deferred inflows of resources	232,936	225,074	4,264,713	3,219,661	4,497,649	3,444,735
Net position:						
Net investment in capital assets	1,394,612	1,429,608	4,594,763	4,026,527	5,989,375	5,456,135
Restricted	603,121	560,898	-	-	603,121	560,898
Unrestricted	1,668,768	1,349,771	1,013,666	928,868	2,682,434	2,278,639
Total net position	\$ 3,666,501	\$ 3,340,277	\$ 5,608,429	\$ 4,955,395	\$ 9,274,930	\$ 8,295,672

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Sparta exceeded liabilities and deferred inflows by \$9,274,930 as of June 30, 2020. The Town's net position increased by \$979,258 for the fiscal year ended June 30, 2020. However, the largest portion, \$5,989,375 (64.58%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Sparta uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Sparta's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town of Sparta's net position \$603,121 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,682,434 is unrestricted.

The most significant factors that influenced the total unrestricted governmental net position of the Town's financial operations for the fiscal-year ending June 30, 2020 was:

- An increase of the Town tax rate from \$0.38 per \$100 valuation for the previous year to \$0.39 per \$100 valuation.
- Continued diligence in the collection of property taxes which resulted in maintaining a collection rate of 98%.
- Expenses were lower than projected due to the COVID-19 pandemic.

Management Discussion and Analysis
Town of Sparta

Town of Sparta Changes in Net Position
Figure 3

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Revenues:						
Program revenues:						
Charges for services	\$ 112,126	\$ 108,206	\$ 1,392,467	\$ 1,381,787	\$ 1,504,593	\$ 1,489,993
Operating grants and contributions	64,930	64,336	-	-	64,930	64,336
Capital grants and contributions	-	-	607,855	72,915	607,855	72,915
General revenues:						
Property taxes	573,912	572,322	-	-	573,912	572,322
Other taxes	475	865	-	-	475	865
Grants and contributions not restricted to specific programs	863,279	841,427	-	-	863,279	841,427
Other	44,543	41,460	4,696	3,910	49,239	45,370
Total revenues	1,659,265	1,628,616	2,005,018	1,458,612	3,664,283	3,087,228
Expenses:						
General government	495,748	515,856	-	-	495,748	515,856
Public safety	559,994	503,166	-	-	559,994	503,166
Transportation	38,012	36,781	-	-	38,012	36,781
Economic development	24,230	25,424	-	-	24,230	25,424
Environmental protection	108,975	105,190	-	-	108,975	105,190
Culture and recreation	106,082	109,680	-	-	106,082	109,680
Interest on long-term debt	-	-	-	-	-	-
Water and sewer	-	-	1,351,984	1,414,430	1,351,984	1,414,430
Total expenses	1,333,041	1,296,097	1,351,984	1,414,430	2,685,025	2,710,527
Increase (decrease) in net position before transfers	326,224	332,519	653,034	44,182	979,258	376,701
Transfers	-	-	-	-	-	-
Increase (decrease) in net position	326,224	332,519	653,034	44,182	979,258	376,701
Net position, beginning	3,340,277	3,106,758	4,955,395	4,812,213	8,295,672	7,918,971
Restatement	-	(99,000)	-	99,000	-	-
Net position, beginning, as restated	3,340,277	3,007,758	4,955,395	4,911,213	8,295,672	7,918,971
Net position, June 30	\$ 3,666,501	\$ 3,340,277	\$ 5,608,429	\$ 4,955,395	\$ 9,274,930	\$ 8,295,672

Management Discussion and Analysis

Town of Sparta

Governmental activities. Governmental activities increased the Town's net position by \$326,224. Key elements of this increase are as follows:

- For the fiscal-year ending June, 2020, revenues from a \$0.01 tax increase, local option sales tax, ABC revenue and sales tax refund increases and expenses were lower than projected.

Business-type activities: Business-type activities increased the Town of Sparta's net position by \$653,034. Key elements of this increase are as follows:

- An increase of 2% in water and sewer service rates was approved by the town council.
- Projects in the water and sewer system infrastructure through a combination of grant funding and loans.

Financial Analysis of the Town's Funds

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

Governmental Funds. The focus of the Town of Sparta's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Sparta's financing requirements.

The general fund is the chief operating fund of the Town of Sparta. At the end of the current fiscal year, the Town of Sparta's fund balance available in the General Fund was \$1,640,684, while total fund balance reached \$2,192,757. The Town currently has an available fund balance of 128.87% of general fund expenditures, while total fund balance represents 172.23% of that same amount.

At June 30, 2020, the governmental funds of Town of Sparta reported a combined fund balance of \$2,360,521, with a net increase in fund balance of \$385,793. Included in this change in fund balance is an increase in fund balance for the General Fund and the Cemetery Fund.

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

Revenue was substantially more than the budgeted amounts primarily due to an increase in the tax rate of \$0.01 per \$100 valuation and more revenue from unrestricted inter-governmental sources. Expenditures were held in check and the Town was able to comply with its budgetary requirements.

Proprietary Funds. The Town of Sparta's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$1,013,666. The total change in net position was an increase of \$752,034.

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

Management Discussion and Analysis
Town of Sparta

Capital Asset and Debt Administration

Capital assets. The Town of Sparta's investment in capital assets for its governmental and business-type activities as of June 30, 2020, totals \$9,428,781 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, water and sewer distribution systems and facilities, and vehicles.

Major capital asset transactions during the year include the following:

- Completion of the Crestview Booster Pump station project as of June 2020, which totals \$835,406.
- Waterline Replacement and Streetscape project began and remains in process.

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

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
Land	\$ 535,504	\$ 535,504	\$ 218,471	\$ 218,471	\$ 753,975	\$ 753,975
Construction in Progress	117,712	101,920	3,598,856	597,089	3,716,568	699,009
Buildings	668,448	696,883	-	-	668,448	696,883
Improvements other than buildings	21,062	26,788	-	-	21,062	26,788
Equipment and Vehicles	31,163	46,639	38,835	43,454	69,998	90,093
Infrastructure	20,723	21,874	-	-	20,723	21,874
Water and Sewer Distribution System	-	-	3,148,645	2,372,734	3,148,645	2,372,734
Wells and Storage Tanks	-	-	334,720	351,984	334,720	351,984
Wastewater Treatment Plant	-	-	694,642	720,527	694,642	720,527
Total	\$ 1,394,612	\$ 1,429,608	\$ 8,034,169	\$ 4,304,259	\$ 9,428,781	\$ 5,733,867

Management Discussion and Analysis
Town of Sparta

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

Long-term Debt. As of June 30, 2020, the Town of Sparta had total debt outstanding of \$3,616,501. Of this, \$3,616,501 is debt backed by the full faith and credit of the Town.

Town of Sparta's Outstanding Liabilities

Figure 5

	Governmental Activities		Business-type Activities		Total	
	2020	2019	2020	2019	2020	2019
State reserve loan	\$ -	\$ -	\$ 685,406	\$ 277,732	\$ 685,406	\$ 277,732
Bond anticipation note (USDA Loans)	-	-	2,754,000	2,754,000	2,754,000	2,754,000
Pension related debt (LGERS)	101,590	92,996	-	-	101,590	92,996
Pension related debt (LEO)	75,505	57,848	-	-	75,505	57,848
Total	\$ 177,095	\$ 150,844	\$ 3,439,406	\$ 3,031,732	\$ 3,616,501	\$ 3,182,576

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Sparta is \$11,828,973.

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

Economic Factors and Next Year's Budgets and Rates

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

Despite the unprecedented COVID-19 pandemic, the local economic environment appears to be maintaining a healthy position as local option sales tax revenues have remained stable and within budgetary projections. Local manufacturing companies report that they seeing a rapid recovery from the initial pandemic interruptions and are hiring additional employees. The waterline replacement and streetscape improvement project has reached substantial completion which has resulted in the return of normal business operations for the Town's businesses. Initial projections of increased tourist activity resulting from the enhancements of this project have been realized to the downtown area and it is believed these trends will continue for the foreseeable future.

Management Discussion and Analysis
Town of Sparta

Budget Highlights for the Fiscal Year Ending June 30, 2021

Governmental Activities:

The FY 2020-21 budget is based upon an unchanged property tax rate of \$0.39 cents per \$100 dollar of assessed tax valuation. The Water & Sewer Enterprise Fund Budget includes a two-percent increase in the basic water and sewer service rate. The rate for garbage service also increased six-percent. The budget basically maintains the current level of operations.

The 2020-21 budget did not require an appropriation from the General Fund Reserve to balance the budget. The Water & Sewer enterprise Budget did not require any appropriation from the Water & Sewer Enterprise Proprietary Fund balance.

We continue to make incremental improvement in the operational aspects of the water and sewer department. We continue to identify key infrastructure needs in both the water and sewer systems, as well as the road system. Comprehensive planning continues to be a priority to address these needs in a methodical, feasible manner.

The priority for this budget is the maintenance of our current programs with an emphasis on progressing the financial stability that the Town has been working for over many years. This includes the rebuilding of the General Fund and Enterprise Fund reserve balances.

Requests for Information

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

BASIC FINANCIAL STATEMENTS

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

	Primary Government			Town of Sparta
	Governmental	Business-type	Total	ABC Board
	Activities	Activities		
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 2,029,989	\$ 1,055,043	\$ 3,085,032	\$ 199,475
Taxes receivables (net)	6,586	-	6,586	-
Accounts receivable (net)	13,963	145,164	159,127	-
Due from other governments	160,792	691,191	851,983	-
Due from component unit	7,345	-	7,345	-
Internal balances	123,838	(123,838)	-	-
Inventories	-	41,867	41,867	124,090
Prepaid items	-	-	-	568
Restricted cash and cash equivalents	70,024	29,546	99,570	-
Total current assets	2,412,537	1,838,973	4,251,510	324,133
Non-current assets:				
Capital assets:				
Land, non-depreciable improvements, and construction in progress	653,216	3,817,327	4,470,543	25,800
Other capital assets, net of depreciation	741,396	4,216,842	4,958,238	16,393
Total capital assets	1,394,612	8,034,169	9,428,781	42,193
Total assets	3,807,149	9,873,142	13,680,291	366,326
DEFERRED OUTFLOWS OF RESOURCES				
Pension deferrals	92,288	-	92,288	11,856
Total deferred outflows of resources	92,288	-	92,288	11,856
LIABILITIES				
Current liabilities:				
Accounts payable and accrued expenses	45,430	795,761	841,191	46,014
Due to primary government	-	-	-	7,345
Due to other governments	-	-	-	23,493
Current portion of long-term liabilities	-	34,270	34,270	-
Payable from restricted assets	-	29,546	29,546	-
Total current liabilities	45,430	859,577	905,007	76,852
Long-term liabilities:				
Net pension liability	101,590	-	101,590	15,839
Total pension liability	75,505	-	75,505	-
Due in more than one year	-	3,405,136	3,405,136	-
Total liabilities	222,525	4,264,713	4,487,238	92,691
DEFERRED INFLOWS OF RESOURCES				
Pension deferrals	10,411	-	10,411	24
Total deferred inflows of resources	10,411	-	10,411	24
NET POSITION				
Net investment in capital assets	1,394,612	4,594,763	5,989,375	42,193
Restricted for:				
Cemetery Perpetual Care	167,764	-	167,764	-
Stabilization by State Statute	305,938	-	305,938	-
Streets	129,419	-	129,419	-
Other purposes	-	-	-	28,428
Unrestricted	1,668,768	1,013,666	2,682,434	214,846
Total net position	\$ 3,666,501	\$ 5,608,429	\$ 9,274,930	\$ 285,467

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

		Program Revenues			Net (Expense) Revenue and Changes in Net Position					
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Town of Sparta ABC Board		
					Governmental Activities	Business-type Activities	Total			
Primary government:										
Governmental Activities:										
General government	\$ 495,748	\$ -	\$ -	\$ -	\$ (495,748)	\$ -	\$ (495,748)	\$ -		
Public safety	559,994	-	5,822	-	(554,172)	-	(554,172)	-		
Transportation	38,012	-	57,737	-	19,725	-	19,725	-		
Economic development	24,230	-	-	-	(24,230)	-	(24,230)	-		
Environmental protection	108,975	111,751	1,371	-	4,147	-	4,147	-		
Cultural and recreation	106,082	375	-	-	(105,707)	-	(105,707)	-		
Interest on long-term debt	-	-	-	-	-	-	-	-		
Total governmental activities	1,333,041	112,126	64,930	-	(1,155,985)	-	(1,155,985)	-		
Business-type activities:										
Water and sewer	1,351,984	1,392,467	-	607,855	-	648,338	648,338	-		
Total business-type activities	1,351,984	1,392,467	-	607,855	-	648,338	648,338	-		
Total primary government	\$ 2,685,025	\$ 1,504,593	\$ 64,930	\$ 607,855	(1,155,985)	648,338	(507,647)	-		
Component unit:										
ABC Board	\$ 955,720	\$ 977,425	\$ -	\$ -	-	-	-	21,705		
Total component unit	\$ 955,720	\$ 977,425	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21,705		
General revenues:										
Taxes:										
Property taxes, levied for general purpose					573,912	-	573,912	-		
Other taxes					475	-	475	-		
Grants and contributions not restricted to specific programs					863,279	-	863,279	-		
Unrestricted investment earnings					8,156	4,696	12,852	209		
Miscellaneous					36,387	-	36,387	-		
Total general revenues not including transfers					1,482,209	4,696	1,486,905	209		
Transfers					-	-	-	-		
Total general revenues and transfers					1,482,209	4,696	1,486,905	209		
Change in net position					326,224	653,034	979,258	21,914		
Net position, beginning					3,439,277	4,856,395	8,295,672	263,553		
Restatement					(99,000)	99,000	-	-		
Net position, beginning, as restated					3,340,277	4,955,395	8,295,672	263,553		
Net position, ending					\$ 3,666,501	\$ 5,608,429	\$ 9,274,930	\$ 285,467		

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

TOWN OF SPARTA, NORTH CAROLINA
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2020

	Major Fund		
	General	Total Non-Major Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 1,862,225	\$ 167,764	\$ 2,029,989
Restricted cash and cash equivalents	70,024	-	70,024
Receivables, net:			
Taxes	6,586	-	6,586
Accounts	13,963	-	13,963
Due from other governments	160,792	-	160,792
Due from other funds	123,838	-	123,838
Due from component unit	7,345	-	7,345
Total assets	<u>2,244,773</u>	<u>167,764</u>	<u>2,412,537</u>
LIABILITIES			
Accounts payable and accrued liabilities	45,430	-	45,430
Total liabilities	<u>45,430</u>	<u>-</u>	<u>45,430</u>
DEFERRED INFLOWS OF RESOURCES			
Property taxes receivable	6,586	-	6,586
Total deferred inflows of resources	<u>6,586</u>	<u>-</u>	<u>6,586</u>
FUND BALANCES			
Non Spendable			
Perpetual maintenance	-	167,764	167,764
Restricted			
Stabilization by State statute	305,938	-	305,938
Streets	129,419	-	129,419
Assigned			
Health benefits	116,716	-	116,716
Unassigned	1,640,684	-	1,640,684
Total fund balances	<u>2,192,757</u>	<u>167,764</u>	<u>2,360,521</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,244,773</u>	<u>\$ 167,764</u>	

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

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

Gross capital assets at historical cost	\$ 2,588,448	
Accumulated depreciation	(1,193,836)	1,394,612

Deferred outflows of resources related to pensions are not reported in the funds 92,288

Earned revenues considered deferred inflows of resources in fund statements. 6,586

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

Net pension liability	(101,590)
Total pension liability	(75,505)

Deferred inflows of resources related to pensions are not reported in the funds (10,411)

Net position of governmental activities	<u>\$ 3,666,501</u>
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TOWN OF SPARTA, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020

	Major Fund		
	General Fund	Total Non-Major Funds	Total Governmental Funds
REVENUES			
Ad valorem taxes	\$ 573,553	\$ -	\$ 573,553
Other taxes and licenses	475	-	475
Unrestricted intergovernmental	863,279	-	863,279
Restricted intergovernmental	64,930	-	64,930
Sales and services	112,126	-	112,126
Investment earnings	7,578	578	8,156
Miscellaneous	36,386	-	36,386
Total revenues	1,658,327	578	1,658,905
EXPENDITURES			
Current:			
General government	487,284	-	487,284
Public safety	526,596	-	526,596
Transportation	29,547	-	29,547
Economic development	31,557	-	31,557
Environmental protection	100,511	-	100,511
Cultural and recreation	97,617	-	97,617
Debt service:			
Principal	-	-	-
Interest and other charges	-	-	-
Total expenditures	1,273,112	-	1,273,112
Excess (deficiency) of revenues over expenditures	385,215	578	385,793
OTHER FINANCING SOURCES (USES)			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balance	385,215	578	385,793
Fund balances, beginning	1,710,929	167,186	
Restatement	96,613	-	
Fund balances, beginning, as restated	1,807,542	167,186	
Fund balances, ending	\$ 2,192,757	\$ 167,764	

(continued)

TOWN OF SPARTA, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
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		\$ 385,793
<p>Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.</p>		
Capital outlay expenditures which were capitalized	\$ 15,792	
Depreciation expense for governmental assets	<u>(50,788)</u>	(34,996)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities		19,779
Benefit payments paid and administrative expense for LEOSSA are not included on the Statement of Activities		10,837
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.</p>		
Change in unavailable revenue for tax revenues		360
<p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.</p>		
Principal payments on long-term debt		-
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.</p>		
Pension expense		<u>(55,549)</u>
Total changes in net position of governmental activities		<u><u>\$ 326,224</u></u>

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

	General Fund			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual Amounts	
Revenues:				
Ad valorem taxes	\$ 564,832	\$ 564,832	\$ 573,553	\$ 8,721
Other taxes and licenses	600	600	475	(125)
Unrestricted intergovernmental	822,615	822,615	863,279	40,664
Restricted intergovernmental	63,000	63,000	64,930	1,930
Sales and services	111,696	111,696	112,126	430
Investment earnings	4,800	4,800	7,578	2,778
Miscellaneous	34,090	34,090	36,386	2,296
Total revenues	1,601,633	1,601,633	1,658,327	56,694
Expenditures:				
Current:				
General government	571,678	571,678	487,284	84,394
Public safety	574,025	574,025	526,596	47,429
Transportation	58,000	58,000	29,547	28,453
Economic development	137,204	137,204	31,557	105,647
Environmental protection	99,535	99,535	100,511	(976)
Cultural and recreation	114,950	114,950	97,617	17,333
Contingency	46,241	46,241	-	46,241
Debt service:				
Principal retirement	-	-	-	-
Interest and other charges	-	-	-	-
Total expenditures	1,601,633	1,601,633	1,273,112	328,521
Revenues over (under) expenditures	-	-	385,215	385,215
Other financing sources (uses):				
Transfers from other funds	-	-	-	-
Transfers to other funds	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Fund balance appropriated	-	-	-	-
Net change in fund balance	\$ -	\$ -	385,215	\$ 385,215
Fund balances, beginning			1,710,929	
Restatement			96,613	
Fund balances, beginning, as restated			1,807,542	
Fund balances, ending			\$ 2,192,757	

TOWN OF SPARTA, NORTH CAROLINA
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
JUNE 30, 2020

	Major Enterprise Fund	
	Water and Sewer Fund	Total
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,055,043	\$ 1,055,043
Accounts receivable (net) - billed	145,164	145,164
Due from other governments	691,191	691,191
Inventories	41,867	41,867
Restricted cash and cash equivalents	29,546	29,546
Total current assets	1,962,811	1,962,811
Noncurrent assets:		
Capital assets:		
Land and other non-depreciable assets	3,817,327	3,817,327
Other capital assets, net of depreciation	4,216,842	4,216,842
Capital assets	8,034,169	8,034,169
Total non-current assets	8,034,169	8,034,169
Total assets	9,996,980	9,996,980
DEFERRED OUTFLOWS OF RESOURCES		
Pension deferrals	-	-
Total deferred outflows of resources	-	-
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	795,761	795,761
Due to other funds	123,838	123,838
State reserve loan - current	34,270	34,270
Bond anticipation note (USDA loans) payable	-	-
Liabilities payable from restricted assets:		
Customer deposits	29,546	29,546
Total current liabilities	983,415	983,415
Noncurrent liabilities:		
State reserve loan - noncurrent	651,136	651,136
Bond anticipation note (USDA loans) - noncurrent	2,754,000	2,754,000
Total noncurrent liabilities	3,405,136	3,405,136
Total liabilities	4,388,551	4,388,551
DEFERRED INFLOWS OF RESOURCES		
Pension deferrals	-	-
Total deferred inflows of resources	-	-
NET POSITION		
Net investment in capital assets	4,594,763	4,594,763
Unrestricted	1,013,666	1,013,666
Total net position	\$ 5,608,429	\$ 5,608,429

TOWN OF SPARTA, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Major Enterprise Fund	
	Water and Sewer Fund	Total
OPERATING REVENUES		
Water charges	\$ 883,867	\$ 883,867
Sewer charges	457,232	457,232
Water and sewer taps	6,428	6,428
Other operating revenues	44,940	44,940
Total operating revenues	1,392,467	1,392,467
OPERATING EXPENSES		
Plant and system operations:		
Water department	872,394	872,394
Sewer department	352,143	352,143
Depreciation	127,447	127,447
Total operating expenses	1,351,984	1,351,984
Operating income	40,483	40,483
NONOPERATING REVENUES (EXPENSES)		
Investment earnings	4,696	4,696
Interest and other charges	-	-
Loan costs	-	-
Total nonoperating revenues (expenses)	4,696	4,696
Income before contributions and transfers	45,179	45,179
Capital contributions	607,855	607,855
Transfers from other funds	-	-
Change in net position	653,034	653,034
Total net position, beginning	4,856,395	4,856,395
Restatement	99,000	99,000
Total net position, beginning, as restated	4,955,395	4,955,395
Total net position, ending	\$ 5,608,429	\$ 5,608,429

TOWN OF SPARTA, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Major Enterprise Fund	
	Water and Sewer Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	\$ 1,318,396	\$ 1,318,396
Cash paid for goods and services	(804,370)	(804,370)
Cash paid to or on behalf of employees for services	(394,215)	(394,215)
Customer deposits received	17,475	17,475
Customer deposits returned	(12,500)	(12,500)
Other operating revenues	51,368	51,368
Net cash provided by operating activities	176,154	176,154
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Increase in due to other funds	27,225	27,225
Transfers from other funds	-	-
Total cash flows from noncapital financing activities	27,225	27,225
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Bond anticipation note issued	-	-
State reserve loan proceeds	407,674	407,674
Acquisition and construction of capital assets	(3,250,836)	(3,250,836)
Bond issue costs	-	-
Payments on capital lease	-	-
Interest paid on capital lease	-	-
Capital contribution	(6,193)	(6,193)
Net cash used by capital and related financing activities	(2,849,355)	(2,849,355)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	4,696	4,696
Net increase (decrease) in cash and cash equivalents	(2,641,280)	(2,641,280)
Balances, beginning	3,725,869	3,725,869
Balances, ending	\$ 1,084,589	\$ 1,084,589
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital contribution by accounts receivable	\$ 671,076	\$ 671,076
Acquisition of capital assets by accounts payable	\$ 741,741	\$ 741,741

(continued)

TOWN OF SPARTA, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2020

	Major Enterprise Fund	
	Water and Sewer Fund	Total
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$ 40,483	\$ 40,483
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	127,447	127,447
Changes in assets and liabilities:		
Increase in accounts receivable	(13,673)	(13,673)
Increase in due from other governments	(9,030)	(9,030)
Decrease in inventory	70	70
Increase in accounts payable and accrued liabilities	25,882	25,882
Increase in customer deposits	4,975	4,975
Total adjustments	135,671	135,671
Net cash provided by operating activities	\$ 176,154	\$ 176,154

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note I. Summary of Significant Accounting Policies

The accounting policies of the Town of Sparta and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

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

Town of Sparta ABC Board

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

B. Basis of Presentation

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

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

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note I. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

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

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

The Town reports the following major governmental fund:

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

The Town reports the following non-major governmental fund:

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

The Town reports the following major enterprise fund:

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

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise fund are charges to customers for sales and services. The Town also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the water and sewer system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

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

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

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note I. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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

D. Budgetary Data

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

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

1. Deposits and Investments

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

State law [G. S. 159-30(c)] authorizes the Town and the ABC Board to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States, obligations of the State of North Carolina, bonds and notes of any North Carolina local government or public authority, obligations of certain non-guaranteed federal agencies, certain high quality issues of commercial paper and bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT).

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note I. Summary of Significant Accounting Policies (Continued)

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

2. Cash and Cash Equivalents

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

3. Restricted Assets

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

Town of Sparta Restricted Cash

Governmental Activities
General Fund

Streets	\$ 70,024
Total governmental activities	<u>70,024</u>

Business-type Activities
Water and Sewer Fund

Customer deposits	29,546
Total Business-type Activities	<u>29,546</u>

Total Restricted Cash	<u>\$ 99,570</u>
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4. Ad Valorem Taxes Receivable

In accordance with state law [G. S. 105-347 and G. S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2019. As allowed by State law, the Town has established a schedule of discounts that apply to taxes which are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowances for Doubtful Accounts

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

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note I. Summary of Significant Accounting Policies (Continued)

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

6. Inventory

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

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization cost is \$5,000. Donated capital assets received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

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

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

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, pension deferrals in the 2020 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note I. Summary of Significant Accounting Policies (Continued)

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

8. Deferred outflows/inflows of resources (Continued)

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

9. Long Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

10. Compensated Absences

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

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

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

11. Net Position/ Fund Balances

Net Position

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

Fund Balances

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

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note I. Summary of Significant Accounting Policies (Continued)

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

11. Net Position/ Fund Balances (Continued)

Fund Balances (Continued)

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

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

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

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note I. Summary of Significant Accounting Policies (Continued)

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

11. Net Position/ Fund Balances (Continued)

Fund Balances (Continued)

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

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

12. Defined Benefit Cost-Sharing Plans

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

Note II. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the ABC Board, or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town and the ABC Board under the Pooling Method, the potential exists for under-collateralization. This risk may increase in periods of high cash flows.

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

A. Assets (Continued)

1. Deposits (continued)

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

At June 30, 2020, the Town's deposits had a carrying amount of \$3,184,337 and a bank balance of \$3,072,303. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. The carrying amount of deposits for the ABC Board was \$192,697 and the bank balance was \$210,186. All of the bank balances were covered by federal depository insurance. At June 30, 2020, the Town's petty cash fund totaled \$265.

2. Investments

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

3. Receivables - Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2020 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	\$ 12,679
Enterprise Fund:	
Accounts receivable	8,000
Total	<u>\$ 20,679</u>

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

A. Assets (Continued)

4. Capital Assets

Primary Government

Capital asset activity for the Primary Government for the year ended June 30, 2020 was as follows:

Governmental Activities:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 535,504	\$ -	\$ -	\$ 535,504
Construction in progress	101,920	15,792	-	117,712
Total capital assets not being depreciated	<u>637,424</u>	<u>15,792</u>	<u>-</u>	<u>653,216</u>
Capital assets being depreciated:				
Land improvements	14,800	-	-	14,800
Crouse Park improvements	224,839	-	-	224,839
Buildings	1,122,320	-	-	1,122,320
Equipment and vehicles	538,737	-	-	538,737
Infrastructure	34,536	-	-	34,536
Total capital assets being depreciated	<u>1,935,232</u>	<u>-</u>	<u>-</u>	<u>1,935,232</u>
Less accumulated depreciation for:				
Land improvements	14,800	-	-	14,800
Crouse Park improvements	198,051	5,726	-	203,777
Buildings	425,437	28,435	-	453,872
Equipment and vehicles	492,098	15,476	-	507,574
Infrastructure	12,662	1,151	-	13,813
Total accumulated depreciation	<u>1,143,048</u>	<u>50,788</u>	<u>-</u>	<u>1,193,836</u>
Total capital assets being depreciated, net	<u>792,184</u>			<u>741,396</u>
Governmental activity capital assets, net	<u>\$ 1,429,608</u>			<u>\$ 1,394,612</u>

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

A. Assets (Continued)

4. Capital Assets (Continued)

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

General government	\$ 8,464
Public safety	8,465
Transportation	8,465
Economic development	8,464
Environmental protection	8,465
Cultural and recreation	8,465
Total depreciation expense	<u>\$ 50,788</u>

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

A. Assets (Continued)

4. Capital Assets (Continued)

Business Type Activities: Water and Sewer Fund	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 218,471	\$ -	\$ -	\$ 218,471
Construction in progress	597,089	3,857,357	855,590	3,598,856
Total capital assets not being depreciated	815,560	3,857,357	855,590	3,817,327
Capital assets being depreciated:				
Distribution systems	4,383,743	855,590	-	5,239,333
Wells	252,346	-	-	252,346
Storage tanks	852,223	-	-	852,223
Equipment and vehicles	217,643	-	-	217,643
Wastewater treatment plant	1,294,224	-	-	1,294,224
Total capital assets being depreciated	7,000,179	855,590	-	7,855,769
Less accumulated depreciation for:				
Distribution systems	2,011,009	79,679	-	2,090,688
Wells	171,492	6,947	-	178,439
Storage tanks	581,093	10,317	-	591,410
Equipment and vehicles	174,189	4,619	-	178,808
Wastewater treatment plant	573,697	25,885	-	599,582
Total accumulated depreciation	3,511,480	127,447	-	3,638,927
Total capital assets being depreciated, net	3,488,699			4,216,842
Business type activity capital assets, net	\$ 4,304,259			\$ 8,034,169

Construction commitments

The government has active construction projects as of June 30, 2020. At year end, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Waterline and Streetscape Improvements	\$ 3,105,644	\$ 1,397,479

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

A. Assets (Continued)

4. Capital Assets (Continued)

Discretely presented component unit

Activity for the ABC Board for the year ended June 30, 2020 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 25,800	\$ -	\$ -	\$ 25,800
Capital assets being depreciated:				
Buildings	66,927	-	-	66,927
Other Improvements	9,914	-	-	9,914
Equipment and furniture	98,654	474	-	99,128
Total capital assets being depreciated	<u>175,495</u>	<u>474</u>	<u>-</u>	<u>175,969</u>
Less accumulated depreciation for:				
Buildings	54,485	995	-	55,480
Other Improvements	8,474	320	-	8,794
Equipment and furniture	91,719	3,583	-	95,302
Total accumulated depreciation	<u>154,678</u>	<u>4,898</u>	<u>-</u>	<u>159,576</u>
Capital assets being depreciated, net	<u>20,817</u>			<u>16,393</u>
ABC Board capital assets, net	<u>\$ 46,617</u>			<u>\$ 42,193</u>

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

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

Benefits Provided. LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Sparta employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Sparta's contractually required contribution rate for the year ended June 30, 2020, was 9.70% of compensation for law enforcement officers and 0.00% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Sparta were \$19,779 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 a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

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

At June 30, 2020, the Town reported a liability of \$101,590 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019. The total pension liability used to calculate the net pension liability 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, relative to the

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2019, the Town's proportion was 0.00372%, which was a decrease of 0.00020% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the Town recognized pension expense of \$42,014. 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 of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 17,395	\$ -
Changes of assumptions	16,558	-
Net difference between projected and actual earnings on pension plan investments	2,478	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	6,739
Town contributions subsequent to the measurement date	19,779	-
Total	<u>\$ 56,210</u>	<u>\$ 6,739</u>

\$19,779 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2021	\$ 15,812
2022	3,426
2023	8,489
2024	1,964
2025	-
Thereafter	-

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

Actuarial Assumptions. The total pension liability in the December 31, 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 U.S. 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 the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

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

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2018 asset, liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

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

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

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

a. Local Governmental Employees' Retirement System (Continued)

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
Town's proportionate share of the net pension liability (asset)	\$ 232,356	\$ 101,590	\$ (7,102)

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

b. Law Enforcement Officers' Special Separation Allowance

1. Plan Description.

The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five or more years of creditable service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

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

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

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	5
Total	<u>7</u>

**TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020**

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

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

2. Summary of Significant Accounting Policies

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

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

3. Actuarial Assumptions

The entry age actuarial cost method was used in the December 31, 2018 valuation. 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	2.50 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.26 percent

The discount rate is based on the yield of the S&P Municipal Bond 20 Year High Grade Rate Index as of December 31, 2018.

Mortality rates are based on the RP-2014 Mortality tables with adjustments for mortality improvements based on Scale AA.

4. Contributions.

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

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

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

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

At June 30, 2020, the Town reported a total pension liability of \$75,505. The total pension liability was measured as of December 31, 2018 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 \$13,535.

	Deferred Outflows of Resources	Inflows of Resources
Differences between expected and actual experience	\$ 20,901	\$ 848
Changes of assumptions	4,340	2,824
Town benefit payments and plan administrative expense made subsequent to the measurement date	10,837	-
Total	<u>\$ 36,078</u>	<u>\$ 3,672</u>

\$10,837 paid as benefits became due subsequent to the measurement date have been reported as deferred outflows of resources and will be recognized as a decrease of the total pension liability in the year ended June 30, 2021. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2021	\$ 5,866
2022	5,901
2023	5,773
2024	4,029
2025	-
Thereafter	-

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

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

Sensitivity of the Town's total pension liability to changes in the discount rate. The following presents the Town's total pension liability calculated using the discount rate of 3.26 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:

	1% Decrease (2.26%)	Discount Rate (3.26%)	1% Increase (4.26%)
Total pension liability	\$ 85,891	\$ 75,505	\$ 66,474

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

	2020
Beginning balance	\$ 57,848
Service Cost	5,761
Interest on the total pension liability	1,908
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	17,241
Changes of assumptions or other inputs	3,584
Benefit payments	(10,837)
Other changes	-
Ending balance of the total pension liability	<u>\$ 75,505</u>

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

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

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

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

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

	LGERS	LEOSSA	Total
Pension Expense	\$ 42,014	\$ 13,535	\$ 55,549
Pension Liability	101,590	75,505	177,095
Proportionate share of the net pension liability	0.00372%	n/a	
Deferred of Outflows of Resources			
Differences between expected and actual experience	17,395	20,901	38,296
Changes of assumptions	16,558	4,340	20,898
Net difference between projected and actual earnings on plan investments	2,478	-	2,478
Changes in proportion and differences between contributions and proportionate share of contributions	-	-	-
Benefit payments and administrative costs paid subsequent to the measurement date	19,779	10,837	30,616
			-
Deferred of Inflows of Resources			
Differences between expected and actual experience	-	848	848
Changes of assumptions	-	2,824	2,824
Net difference between projected and actual earnings on plan investments	-	-	-
Changes in proportion and differences between contributions and proportionate share of contributions	6,739	-	6,739

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

1. Pension Plan Obligations (Continued)

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2020 were \$11,665 which consisted of \$9,495 from the Town and \$2,170 from the law enforcement officers.

d. Town of Sparta Employees' Retirement Plan

All employees of the Town are eligible to participate in the Town's defined contribution retirement plan. Participation begins after one year of employment for full-time employees and after 1,000 hours of service for part-time employees. Under the provisions of the plan, the Town makes a contribution equal to 5% of compensation. The Town makes monthly contributions during the year. For the year ended June 30, 2020, the Town paid contributions to the plan of \$22,661.

e. Town of Sparta 457 Retirement Plan

All employees of the Town are eligible to participate in the Town's 457 defined contribution retirement plan. Participation begins at time of employment for full-time employees and after 1,000 hours of service for part-time employees. Under the provisions of the plan, employees may contribute up to 5% of compensation, subject to a \$7,500 maximum, and the Town contributes up to 5% of the employees' compensation. Total contributions for the year ended June 30, 2020 amounted to \$36,511 which consisted of \$14,300 from employees and \$22,211 from the Town.

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

2. Deferred Outflows and Inflows of Resources

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

Source	Amount
Contributions to pension plan in current fiscal year	\$ 19,779
Benefit payments made for LEOSSA	10,837
Differences between expected and actual experience	38,296
Changes of assumptions	20,898
Net difference between projected and actual earnings on pension plan investments	2,478
Changes in proportion and differences between employer contributions and proportionate share of contributions	-
Total	<u>\$ 92,288</u>

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

	Statement of Net Position	General Fund Balance Sheet
Taxes Receivable, less penalties (General Fund)	\$ -	\$ 6,586
Changes in assumptions	848	-
Differences between expected and actual experience	2,824	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	6,739	-
Total	<u>\$ 10,411</u>	<u>\$ 6,586</u>

3. Commitments

Solid Waste collection: The Town has entered into an agreement for solid waste collection expiring in June 2021 for approximately \$76,000 per year.

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

4. Risk Management

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

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

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

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

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

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

5. Long-Term Obligations

a. Notes Payable

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

At June 30, 2020, the amount of the draws on the note was \$685,406. No payments have been made bringing the unpaid balance to \$685,406.

Year Ending June 30		Principal	Interest
	2021	\$ 34,270	\$ -
	2022	34,270	-
	2023	34,270	-
	2024	34,270	-
	2025	34,270	-
	2026-2030	171,350	-
	2031-2035	171,350	-
	2036-2040	171,356	-
Total		<u>\$ 685,406</u>	<u>\$ -</u>

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

5. Long-Term Obligations (Continued)

b. General Obligation Indebtedness

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

Bond Anticipation Notes

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

On July 20, 2020 the above note was refinanced by two United States Department of Agriculture loans in the amount of \$1,554,000 and \$1,200,000. Both promissory notes will accrue interest at 1.50% per annum on the unpaid principal. The principal and interest is to be repaid, and presented in these financial statements, in 40 annual installments each of \$51,951 and \$40,116 respectively, beginning July 20, 2021.

Year Ending June 30	Principal	Principal	Total	Interest	Interest	Total
2021	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2022	28,641	22,116	50,757	23,310	18,000	41,310
2023	29,071	22,448	51,519	22,880	17,668	40,548
2024	29,507	22,784	52,291	22,444	17,332	39,776
2025	29,949	23,126	53,075	22,002	16,990	38,992
2026-2030	156,621	120,940	277,561	103,134	79,640	182,774
2031-2035	168,726	130,286	299,012	91,029	70,294	161,323
2036-2040	181,765	140,356	322,121	77,990	60,224	138,214
2041-2045	195,813	151,203	347,016	63,942	49,377	113,319
2046-2050	210,946	162,888	373,834	48,809	37,692	86,501
2051-2055	227,249	175,477	402,726	32,506	25,103	57,609
2056-2060	244,812	189,039	433,851	14,943	11,541	26,484
2061	50,900	39,337	90,237	764	590	1,354
Total	<u>\$ 1,554,000</u>	<u>\$ 1,200,000</u>	<u>\$ 2,754,000</u>	<u>\$ 523,753</u>	<u>\$ 404,451</u>	<u>\$ 928,204</u>

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

5. Long-Term Obligations (Continued)

c. Changes in Long-Term Liabilities

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

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Net pension liability (LGRS)	\$ 92,996	\$ 8,594	\$ -	\$ 101,590	\$ -
Total pension liability (LEO)	57,848	17,657	-	75,505	-
Governmental activity long-term liabilities	<u>\$ 150,844</u>	<u>\$ 26,251</u>	<u>\$ -</u>	<u>\$ 177,095</u>	<u>\$ -</u>
Business-type activities:					
Water and Sewer Fund					
Bond anticipation note (USDA Loans)	\$ 2,754,000	\$ -	\$ -	\$ 2,754,000	\$ -
State reserve loan	277,732	407,674	-	685,406	34,270
Business activity long-term liabilities	<u>\$ 3,031,732</u>	<u>\$ 407,674</u>	<u>\$ -</u>	<u>\$ 3,439,406</u>	<u>\$ 34,270</u>

. The Town has a legal debt margin of \$11,828,973.

C. Interfund Balances

Balances due to/from other funds at June 30, 2020, consist of the following:

Due from the Water and Sewer Fund \$222,838

The interfund balances resulted from the payment of expenditures by the General Fund for a Water and Sewer Fund capital project for prior year and current year expenditures that were post-approved for the project by the granting authorities.

D. Net Investment in Capital Assets

	Governmental	Business-type
Capital assets	\$ 1,394,612	\$ 8,034,169
add: unexpended bond proceeds	-	-
less: long-term debt	-	(3,439,406)
Net investment in capital asset	<u>\$ 1,394,612</u>	<u>\$ 4,594,763</u>

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note II. Detail Notes on All Funds (Continued)

E. Fund Balance

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

Total fund balance - General Fund	\$ 2,192,757
Less:	
Stabilization by State Statute	305,938
Streets - Powell Bill	129,419
Health Benefits	116,716
Remaining Fund Balance	1,640,684

Note III. Jointly Governed Organization

The Town, in conjunction with seven counties and nineteen other municipalities established the High Country Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$510 to the Council during the fiscal year ended June 30, 2020.

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

Note IV. Federal and State Assisted Programs

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

Note V. Economic Dependence

Approximately 25% of water and sewer billings during the year ended June 30, 2020 were to Magnolia Manufacturing, which is the single largest water customer of the Town. The Town receives significant state franchise tax reimbursements on the electric power usage from this industry.

Note VI. Subsequent Events

Subsequent events have been evaluated through December 3, 2020, which is the date the financial statements were available to be issued.

TOWN OF SPARTA, NORTH CAROLINA
NOTES TO FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2020

Note VII. Restatements

Prior period adjustment

During the year ended June 30, 2020, the Town determined that \$195,613 of expenditures paid by the General Fund in prior years and the year ended June 30, 2019 were actually for a Water and Sewer Capital project in the Water and Sewer Fund. These expenditures were post approved by the granting authorities to be reimbursed as part of the project and should have been recorded as construction in progress in the Water and Sewer Fund instead of the General Fund and also capital contributions of \$195,613 should have been recorded in the Water and Sewer Fund. In addition, it was determined that a \$99,000 transfer from the General Fund to the Water and Sewer Capital Projects fund should have been recorded for the Town's contribution to the project. Therefore, an adjustment to beginning fund balance of \$195,613 in the General Fund has been made as well as to the beginning construction in progress for the Water and Sewer Capital project. Additionally, an adjustment has been made to the beginning fund balance in the Water and Sewer Capital Projects fund for \$195,613 of grant revenues. Additionally, an adjustment has been made to beginning fund balance in the General Fund for \$99,000 and to beginning net position in the governmental and business-type activities.

REQUIRED SUPPLEMENTAL FINANCIAL DATA

Town of Sparta, North Carolina
Town of Sparta's 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
Sparta's proportion of the net pension liability (asset) (%)	0.00372%	0.00392%	0.00399%	0.00428%	0.00408%	0.00468%	0.00310%
Sparta's proportion of the net pension liability (asset) (\$)	\$ 101,590	\$ 92,996	\$ 60,956	\$ 90,836	\$ 18,311	\$ (27,600)	\$ 37,367
Sparta's covered-employee payroll	\$ 221,489	\$ 227,168	\$ 216,744	\$ 216,700	\$ 209,151	\$ 224,754	\$ 206,417
Sparta's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	45.87%	40.94%	28.12%	41.92%	8.75%	(12.28%)	18.10%
Plan fiduciary net position as a percentage of the total pension liability**	90.86%	91.63%	94.18%	91.47%	98.09%	102.64%	94.35%

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

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

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

Local Government Employees' Retirement System

	2020	2019	2018	2017	2016	2015	2014
Contractually required contribution	\$ 19,779	\$ 17,814	\$ 17,546	\$ 16,938	\$ 15,748	\$ 15,251	\$ 15,917
Contributions in relation to the contractually required contribution	19,779	17,814	17,546	16,938	15,748	15,251	15,917
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Sparta's covered-employee payroll	\$ 218,154	\$ 221,489	\$ 227,168	\$ 216,744	\$ 216,700	\$ 209,151	\$ 224,754
Contributions as a percentage of covered-employee payroll	9.07%	8.04%	7.72%	7.81%	7.27%	7.29%	7.08%

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

	2020	2019	2018	2017
Beginning balance	\$ 57,848	\$ 54,972	\$ 55,332	\$ 57,235
Service Cost	5,761	6,333	5,082	6,369
Interest on the total pension liability	1,908	1,540	1,962	1,882
Changes of benefit terms	-	-	-	-
Differences between expected and actual experience in the measurement of the total pension liability	17,241	11,331	(2,057)	-
Changes of assumptions or other inputs	3,584	(3,829)	3,678	(1,129)
Benefit payments	(10,837)	(12,499)	(9,025)	(9,025)
Other changes	-	-	-	-
Ending balance of the total pension liability	<u>\$ 75,505</u>	<u>\$ 57,848</u>	<u>\$ 54,972</u>	<u>\$ 55,332</u>

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

Town of Sparta, North Carolina
Schedule of Total Pension Liability as a Percentage of Covered Payroll
Law Enforcement Officers' Special Separation Allowance
June 30, 2020

	2020	2019	2018	2017
Total pension liability	\$ 75,505	\$ 57,848	\$ 54,972	\$ 55,332
Covered payroll	209,893	214,225	227,209	261,112
Total pension liability as a percentage of covered payroll	35.97%	27.00%	24.19%	21.19%

Notes to the schedules:

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

INDIVIDUAL FUND SCHEDULES

**TOWN OF SPARTA, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020**

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Ad valorem taxes:			
Taxes	\$	\$ 571,788	\$
Penalties and interest		1,765	
Total	564,832	573,553	8,721
Other taxes and licenses:			
Privilege licenses		475	
Total	600	475	(125)
Unrestricted intergovernmental:			
Local option sales taxes		553,498	
Telecommunications sales tax		13,242	
Utilities sales tax		248,816	
Video franchise fee		7,103	
Beer and wine tax		7,738	
Other reimbursements		6,610	
Police property & drug reimbursement		75	
ABC profit distribution		26,197	
Total	822,615	863,279	40,664
Restricted intergovernmental:			
Powell Bill allocation		57,737	
ABC Revenue for law enforcement		5,822	
Solid waste disposal tax		1,371	
Total	63,000	64,930	1,930
Sales and services:			
Garbage collection fees		111,751	
Recreation department fees		375	
Total	111,696	112,126	430
Investment earnings	4,800	7,578	2,778
Miscellaneous:			
Rent income		32,240	
Sale of property		-	
Other		4,146	
Total	34,090	36,386	2,296
Total revenues	1,601,633	1,658,327	56,694

(continued)

**TOWN OF SPARTA, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020**

	Budget	Actual	Variance Positive (Negative)
Expenditures:			
General government:			
Salaries and employee benefits		13,238	
Professional services		54,835	
Total		68,073	
Administration:			
Salaries and employee benefits		291,959	
Other operating expenditures		29,374	
Total		321,333	
Public buildings:			
Utilities		57,568	
Other operating expenditures		12,377	
Insurance		27,933	
Total		97,878	
Total general government	571,678	487,284	84,394
Public safety:			
Police:			
Salaries and employee benefits		365,750	
Contract labor - dispatcher		48,000	
Other operating expenditures		82,500	
Capital outlay		-	
Total		496,250	
Fire:			
Other operating expenditures		30,346	
Total public safety	574,025	526,596	47,429
Transportation:			
Streets and highways:			
Contracted services		29,547	
Capital outlay		-	
Total transportation	58,000	29,547	28,453
Economic development:			
Other expenditures		15,765	
Capital outlay		15,792	
Total economic development	137,204	31,557	105,647

(continued)

TOWN OF SPARTA, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2020

	Budget	Actual	Variance Positive (Negative)
Environmental protection:			
Solid waste:			
Contracted services		90,949	
Other operating expenditures		9,562	
Total environmental protection	99,535	100,511	(976)
Culture and recreation:			
Parks and recreation:			
Other operating expenditures		21,837	
Total		21,837	
Community Projects:			
Main Street Program		19,726	
Chamber of Commerce		18,554	
Jaycees Fireworks		3,000	
Rescue Squad		5,000	
Alleghany County Hospital		7,000	
Alleghany Wellness		6,000	
Other projects		6,500	
Total		65,780	
Libraries:			
Contribution to regional library		10,000	
Total culture and recreation	114,950	97,617	17,333
Contingency	46,241	-	46,241
Debt service:			
Principal retirement	-	-	-
Interest and other charges	-	-	-
Total debt service	-	-	-
Total expenditures	1,601,633	1,273,112	328,521
Revenues over (under) expenditures	-	385,215	385,215
Other financing sources (uses):			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Total other financing sources (uses)	-	-	-
Fund balance appropriated	-	-	-
Net change in fund balance	\$ -	385,215	\$ 385,215
Fund balances, beginning		1,710,929	
Restatement		96,613	
Fund balances, beginning, as restated		1,807,542	
Fund balances, ending		\$ 2,192,757	

**TOWN OF SPARTA, NORTH CAROLINA
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2020**

	Cemetery Care Fund	Total Non-major Governmental Funds
ASSETS		
Cash and cash equivalents	\$ 167,764	\$ 167,764
Total assets	<u>\$ 167,764</u>	<u>\$ 167,764</u>
 LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable and accrued liabilities	\$ -	\$ -
Total liabilities	<u>-</u>	<u>-</u>
 Fund balances:		
Non-spendable-Perpetual		
Maintenance	167,764	167,764
Total fund balances	<u>167,764</u>	<u>167,764</u>
Total liabilities and fund balances	<u>\$ 167,764</u>	<u>\$ 167,764</u>

**TOWN OF SPARTA, NORTH CAROLINA
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2020**

	Cemetery Care Fund	Total Non-major Governmental Funds
REVENUES		
Investment earnings	\$ 578	\$ 578
Total revenues	<u>578</u>	<u>578</u>
EXPENDITURES		
Economic development	-	-
Total expenditures	<u>-</u>	<u>-</u>
Revenues over (under) expenditures	<u>578</u>	<u>578</u>
OTHER FINANCING SOURCES (USES)		
Transfers from other funds:		
General Fund	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>
Revenues over expenditures	578	578
Fund balance, beginning	<u>167,186</u>	<u>167,186</u>
Fund balance, ending	<u><u>\$ 167,764</u></u>	<u><u>\$ 167,764</u></u>

TOWN OF SPARTA, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2020

	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Water charges	\$	\$ 883,867	\$
Sewer charges		457,232	
Water and sewer taps		6,428	
Other operating revenues		44,940	
Total operating revenues	<u>1,404,184</u>	<u>1,392,467</u>	<u>(11,717)</u>
Nonoperating revenues:			
Interest earnings	-	4,696	4,696
Total nonoperating revenues	<u>-</u>	<u>4,696</u>	<u>4,696</u>
Total revenues	<u>1,404,184</u>	<u>1,397,163</u>	<u>(7,021)</u>
Expenditures:			
Water:			
Salaries		180,883	
Employee benefits		73,368	
Utilities		55,072	
Water authority		327,824	
Plant and equipment maintenance		74,595	
Laboratory fees		9,665	
Professional services		14,246	
Automotive supplies		96	
Supplies and materials		56,001	
Uniforms		8,417	
Insurance and bonds		28,851	
Other operating expenditures		43,376	
Total water operations	<u>997,361</u>	<u>872,394</u>	<u>124,967</u>
Sewer:			
Salaries		109,916	
Employee benefits		32,313	
Utilities		63,891	
Plant and equipment maintenance		27,758	
Laboratory fees		16,381	
Professional services		37,571	
Supplies and chemicals		43,578	
Other operating expenditures		20,735	
Total sewer operations	<u>406,823</u>	<u>352,143</u>	<u>54,680</u>
Debt Service:			
Loan costs		-	
Interest and other charges		-	
Principal retirement		-	
Total debt service	<u>-</u>	<u>-</u>	<u>-</u>

(continued)

**TOWN OF SPARTA, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2020**

	Budget	Actual	Variance Positive (Negative)
Capital outlay:			
Water equipment		-	
Sewer equipment		-	
Total capital outlay	-	-	-
Total expenditures	1,404,184	1,224,537	179,647
Revenues over (under) expenditures	-	172,626	172,626
Other financing sources (uses):			
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Total other financing sources (uses)	-	-	-
Fund balance appropriated	-	-	-
Revenues over expenditures and other financing (uses)	\$ -	172,626	\$ 172,626

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

Reconciling items:	
Principal retirement	-
Depreciation	(127,447)
Capital contributions	607,855
Transfer to water and sewer capital projects fund	-
Total	480,408
Change in net position	\$ 653,034

TOWN OF SPARTA, NORTH CAROLINA
WATER AND SEWER CAPITAL PROJECTS FUND - CRESTVIEW PUMP STATION
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues - Crestview Booster Pump Station and Water System Improvements:					
Division of Water Infrastructure SRP Loan	\$ 685,406	\$ 277,732	\$ 407,674	\$ 685,406	\$ -
Division of Water Infrastructure SRP Grant	150,000	92,577	57,613	150,190	190
Total revenues	<u>835,406</u>	<u>370,309</u>	<u>465,287</u>	<u>835,596</u>	<u>190</u>
Expenditures - Crestview Booster Pump Station and Water System Improvements:					
Construction	708,406	293,541	429,542	723,083	(14,677)
Administration	127,000	102,915	24,572	127,487	(487)
Total expenditures	<u>835,406</u>	<u>396,456</u>	<u>454,114</u>	<u>850,570</u>	<u>(15,164)</u>
Revenues over (under) expenditures	<u>-</u>	<u>(26,147)</u>	<u>11,173</u>	<u>(14,974)</u>	<u>(14,974)</u>
Other financing sources :					
Transfers from other funds:					
From Water and Sewer Fund	-	76,991	-	76,991	76,991
Total other sources	<u>-</u>	<u>76,991</u>	<u>-</u>	<u>76,991</u>	<u>76,991</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 50,844</u>	<u>\$ 11,173</u>	<u>\$ 62,017</u>	<u>\$ 62,017</u>

TOWN OF SPARTA, NORTH CAROLINA
WATER AND SEWER CAPITAL PROJECTS FUND - WATER LINE REPLACEMENT
SCHEDULE OF REVENUES AND EXPENDITURES - BUDGET AND ACTUAL (NON-GAAP)
FROM INCEPTION AND FOR THE FISCAL YEAR ENDED JUNE 30, 2020

	Project Author - ization	Prior Years	Actual Current Year	Total to Date	Variance Positive (Negative)
Revenues - Water Line Replacement Project and Water System Improvements:					
USDA Rural Development grant	\$ 1,952,000	\$ 195,613	\$ 550,242	\$ 745,855	\$ (1,206,145)
NC DOT Municipal Agreement	295,000	-	-	-	(295,000)
Total revenues	<u>2,247,000</u>	<u>195,613</u>	<u>550,242</u>	<u>745,855</u>	<u>(1,501,145)</u>
Expenditures - Water Line Replacement Project					
Construction	4,192,000	-	3,105,644	3,105,644	1,086,356
Engineering	383,020	195,613	109,955	305,568	77,452
Legal and right of way	167,810	-	187,643	187,643	(19,833)
Construction interest	147,070	-	-	-	147,070
Contingency	210,100	-	-	-	210,100
Total expenditures	<u>5,100,000</u>	<u>195,613</u>	<u>3,403,242</u>	<u>3,598,855</u>	<u>1,501,145</u>
Revenues over (under) expenditures	<u>(2,853,000)</u>	<u>-</u>	<u>(2,853,000)</u>	<u>(2,853,000)</u>	<u>-</u>
Other financing sources :					
Tranfers from other funds:					
Applicant contribution	99,000	99,000	-	99,000	-
Bond Anticipation note (USDA loans)	2,754,000	2,754,000	-	2,754,000	-
Total other sources	<u>2,853,000</u>	<u>2,853,000</u>	<u>-</u>	<u>2,853,000</u>	<u>-</u>
Revenues and other sources over (under) expenditures	<u>\$ -</u>	<u>\$ 2,853,000</u>	<u>\$ (2,853,000)</u>	<u>\$ -</u>	<u>\$ -</u>

OTHER SCHEDULES

TOWN OF SPARTA, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2020

<u>Fiscal Year</u>	<u>Uncollected Balance June 30, 2019</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2020</u>
2019-2020	\$ -	\$ 594,433	\$ 582,677	\$ 11,756
2018-2019	11,570	-	8,409	3,161
2017-2018	2,812	-	727	2,085
2016-2017	531	-	264	267
2015-2016	975	-	457	518
2014-2015	791	-	505	286
2013-2014	1,029	-	762	267
2012-2013	1,054	-	761	293
2011-2012	910	-	717	193
2010-2011	832	-	393	439
2009-2010	693	-	693	-
	<u>\$ 21,197</u>	<u>\$ 594,433</u>	<u>\$ 596,365</u>	<u>19,265</u>
Less: allowance for uncollectible accounts:				
General Fund				<u>12,679</u>
Ad valorem taxes receivable - net				<u>\$ 6,586</u>
<u>Reconcilement with revenues:</u>				
Ad valorem taxes - General Fund				\$ 573,553
Reconciling items:				
Interest collected				(1,765)
Discounts allowed				-
Adjustments				23,884
Taxes written off				693
Subtotal				<u>22,812</u>
Total collections and credits				<u>\$ 596,365</u>

TOWN OF SPARTA, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
TOWN-WIDE LEVY
JUNE 30, 2020

	Town - Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Original levy:					
Property taxed at current rate	\$ 149,625,789	0.39	\$ 568,578	\$ 519,277	\$ 49,301
Discoveries - Current and prior years	6,803,947	0.39	25,855	25,855	-
Releases	-	0.39	-	-	-
Total property valuation	<u>\$ 156,429,736</u>				
Net levy			594,433	545,132	49,301
Unpaid (by taxpayer) taxes at June 30, 2020			(11,756)	(11,756)	-
Current year's taxes collected			<u>\$ 582,677</u>	<u>\$ 533,376</u>	<u>\$ 49,301</u>
Current levy collection percentage			<u>98.02%</u>	<u>97.84%</u>	<u>100.00%</u>

COMPLIANCE SECTION



GIBSON & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregated remaining fund information of the Town of Sparta, North Carolina, as of and for the year ended June 30, 2020, and the related notes to the financial statements, which collectively comprises the Town of Sparta's basic financial statements, and have issued our report thereon dated December 3, 2020. Our report includes a reference to other auditors who audited the financial statements of the Town of Sparta ABC Board, as described in our report on the Town of Sparta's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Town of Sparta ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Sparta's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Sparta's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses as item 2020-1 to be a material weakness.

Compliance and Other Matters

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

Town of Sparta's Response to Findings

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

Purpose of this Report

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

A handwritten signature in black ink that reads "Johnson & Company, P.A." in a cursive, flowing script.

Winston-Salem, North Carolina
December 3, 2020



GIBSON & COMPANY, P.A.

CERTIFIED PUBLIC ACCOUNTANTS

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

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Sparta's 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 of Sparta's major federal programs for the year ended June 30, 2020. The Town of Sparta'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 Sparta'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 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 a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Town of Sparta'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 Sparta's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town of Sparta 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 Sparta 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 Sparta'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 a 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.

A handwritten signature in black ink that reads "Johnson + Company, P.A." in a cursive, stylized font.

Winston-Salem, North Carolina
December 3, 2020

TOWN OF SPARTA, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
For the Year Ended June 30, 2020

<u>Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>State/ Pass-through Grantor's Number</u>	<u>Fed. (Direct & Pass-through) Expenditures</u>	<u>State Expenditures</u>
Federal Grants:				
Cash Programs:				
<u>U.S. Dept. of Agriculture</u>				
Passed-through N.C. Department of Agriculture and Consumer Services:				
Water and Waste Disposal Systems for Rural Communities (Note 4)	10.760	XXXX	\$ 1,554,000	\$ -
Water and Waste Disposal Systems for Rural Communities (Note 4)	10.760	XXXX	1,200,000	-
Water and Waste Disposal Systems for Rural Communities	10.760	XXXX	550,242	-
Total U.S. Dept. of Agriculture			3,304,242	-
Total assistance - federal programs			3,304,242	-
State Grants:				
Cash Assistance:				
<u>N.C. Dept. of Environmental Quality</u>				
Division of Water Infrastructure		H-SRP-D-17-0013	-	400,912
State Reserve Loan (Note 4)		H-SRP-D-17-0013		57,613
State Reserve Grant				
<u>N.C. Department of Transportation:</u>				
Powell Bill		32570	-	41,385
Total assistance - State programs			-	499,910
Total assistance			\$ 3,304,242	\$ 499,910

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

Note 1: Basis of Presentation

The accompanying schedule of expenditures of federal and State awards (SEFSA) includes the federal and State grant activity of the Town of Sparta 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 Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards and the State Single Audit Implementation Act. Because the Schedule presents only a selected portion of the operations of the Town of Sparta, it is not intended to and does not present the financial position, changes in net position or cash flows of the Town of Sparta.

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 Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

Note 3: Indirect Cost Rate

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

Note 4: Loans Outstanding

The Town of Sparta had the following loan balances outstanding at June 30, 2020 for loans that the grantor/pass-through grantor has still imposed continuing compliance requirements. Loans outstanding at the beginning of the year and loans made during the year are included in the SEFSA. The balance of loans outstanding at June 30, 2020 consist of:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Pass-through Grantor's Number</u>	<u>Amount Outstanding</u>
Water and Waste Disposal Systems for Rural Communities	10.760	-	\$ 1,554,000
Water and Waste Disposal Systems for Rural Communities	10.760	-	\$ 1,200,000
State Reserve Loan		H-SRP-D-17-0013	\$ 685,406

TOWN OF SPARTA, NORTH CAROLINA
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2020

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

- Material weakness(es) identified? X yes no
- Significant Deficiency(s) yes X none reported

Noncompliance material to financial statements noted yes X no

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? yes X no
- Significant Deficiency(s) identified yes X none reported

Type of auditor's report issued on compliance for major federal programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes X no

Identification of major federal programs:

CFDA Number	Names of Federal Program or Cluster
10.760	Water and Waste Disposal Systems for Rural Communities

Dollar threshold used to distinguish between Type A and Type B Programs \$ 750,000

Auditee qualified as low-risk auditee? yes X no

State Awards

No Major State awards.

**TOWN OF SPARTA, NORTH CAROLINA
Schedule of Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2020**

Section II – Financial Statement Findings

MATERIAL WEAKNESS

2020 - 1 Segregation of Duties

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

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

Effect: Transactions could be mishandled.

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

Identification of a repeat finding: This is a repeat finding from the immediate previous audit, 2019-1.

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

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

Section III - Federal Award Findings & Questioned Costs

None reported.

**TOWN OF SPARTA
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TOWN COUNCIL MEMBERS:

Mike Parlier, Mayor Pro Tem

Cole Edwards

John Brady

Terry McGrady

Milly Richardson

Wes Brinegar, Mayor

Ryan Wilmoth, Town Manager

Robert L. Lane, Chief of Police

Peggy Choate, Town Clerk

Whitney Ivey, Town Attorney

**Corrective Action Plan
For the Fiscal Year Ended June 30, 2020**

Section II – Financial Statement Findings

2020 - 1 Segregation of Duties

Name of contact person: Ryan Wilmoth, Town Manager

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

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

Section III - Federal Award Findings & Questioned Costs

None reported.

TOWN OF SPARTA, NORTH CAROLINA
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2020

Finding: 2019 - 1

Status: Duties are being segregated as much as possible and alternative controls are being implemented to compensate for lack of separation. The governing board is becoming more involved in providing some of these controls.