

Town of Bayboro

FINANCIAL STATEMENTS

June 30, 2021



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INDEPENDENT AUDITORS' REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of the Town of Bayboro (the "Town"), as of and for the year ended June 30, 2021 and the related notes to the financial statements, which collectively comprises 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.

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 auditors consider 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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Town as of June 30, 2021, and the respective changes in financial position 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.

Emphasis of Matter

As discussed in Note 7 to the financial statements, the Town recorded a restatement in the amount of \$17,771 to correct deferred revenues that were not recorded in the correct period. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on 4 through 10 and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions on pages 37 and 38 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

The individual fund budgetary schedule and other schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements.

Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the individual fund budgetary schedule and other schedules are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated May 4, 2022 on our consideration of Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 the effectiveness of the 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's internal control over financial reporting and compliance.

Carr, Riggs & Ingram, P.L.L.C.

CARR, RIGGS & INGRAM, P.L.L.C.
New Bern, North Carolina
May 4, 2022

Town of Bayboro Management's Discussion and Analysis

As management of the Town of Bayboro (the "Town"), we offer readers of the Town's financial statements this narrative overview of the financial activities of the Town for the fiscal year ended June 30, 2021. We encourage readers to consider 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 exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$788,110 (*net position*).
- The government's total net position increased by \$113,547, due to increases in property taxes, state shared revenues, and operating grants. In addition, a prior period adjustment of \$17,771 was recorded. See Note 7 for further information.
- As of the close of the current fiscal year, the Town's governmental funds reported an ending fund balance of \$526,500, an increase of \$127,725 in comparison with the prior year. In addition, a prior period adjustment of \$17,771 was recorded. See Note 7 for further information. Approximately 26.10% of this total amount, or \$84,029, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$387,088 or 162.80% of total General Fund expenditures for the fiscal year.

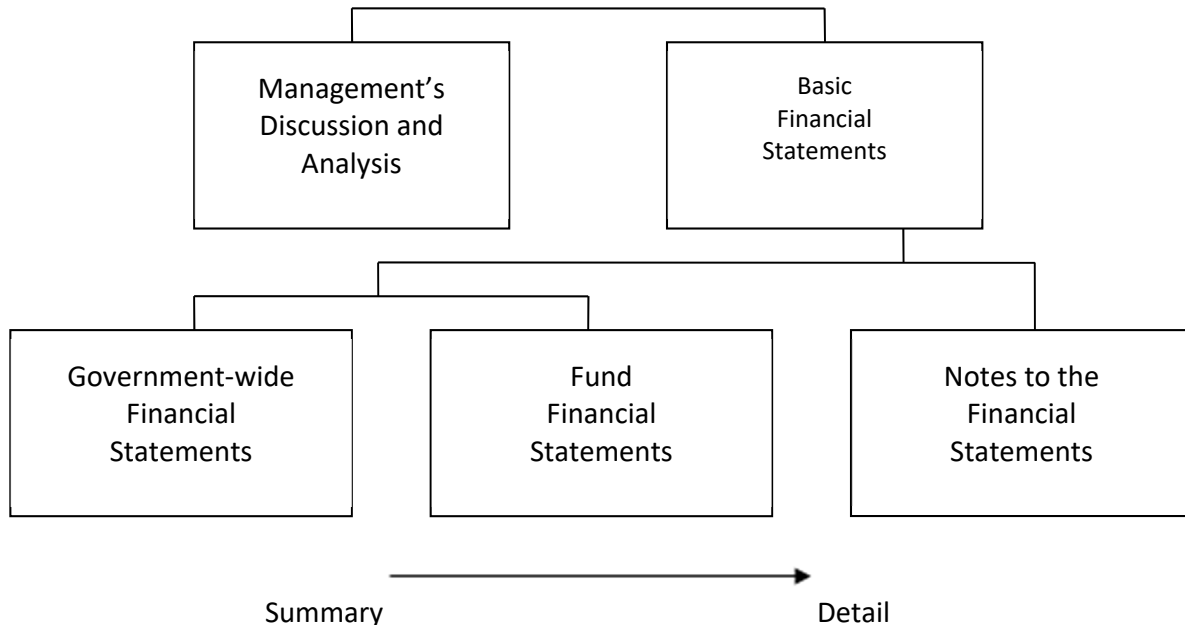
OVERVIEW OF THE FINANCIAL STATEMENTS

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

Town of Bayboro Management's Discussion and Analysis

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 5*) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison statements.

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, the **Required Supplemental Information** provides information about the Town's participation in the state retirement plan and **Supplemental Information** is provided to show details about the Town's individual funds and tax related information. Budgetary information required by the General Statutes also can be found in this part of the statements.

Government-Wide Financial Analysis

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.

Town of Bayboro Management's Discussion and Analysis

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

The government-wide statements consist of the governmental activities. The governmental activities include most of the Town's basic services such as transportation, environmental protection, cultural and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities.

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, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (*or non-compliance*) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town fall into one category: governmental funds.

Governmental Funds - Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. All of the Town's basic services are accounted for in governmental fund. This fund 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* that provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

Town of Bayboro Management's Discussion and Analysis

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 17 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's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 37 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. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign governments and other holders of publicly held U.S. Treasury Securities.

Town of Bayboro's Net Position

	Governmental Activities	
	2021	2020 (Restated)
Current and other assets	\$ 547,333	\$ 458,051
Capital assets	243,893	215,997
Deferred outflows of resources	9,889	7,850
Total assets and deferred outflows of resources	801,115	681,898
Current liabilities	4,736	126
Noncurrent liabilities	8,219	6,281
Deferred inflows of resources	50	928
Total liabilities and deferred inflows of resources	13,005	7,335
Net investment in capital assets	243,893	215,997
Restricted net position	82,029	66,156
Unrestricted net position	462,188	392,410
Total net position	\$ 788,110	\$ 674,563

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 resources of the Town exceeded liabilities and deferred inflows of resources by \$788,110 as of June 30, 2021. The Town's net position increased by \$113,545 for the fiscal year ended June 30, 2021. However, a portion (30.95%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$82,029 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$462,188 is unrestricted.

Town of Bayboro Management's Discussion and Analysis

Town of Bayboro's Changes in Net Position

	Governmental Activities	
	2021	2020 (Restated)
Revenues:		
Program revenues:		
Charges for services	\$ 45,140	\$ 56,039
Operating grants	68,985	66,151
General revenues:		
Property taxes	110,006	104,611
Other taxes	97,247	89,412
Investment earnings	24	1,285
Other revenues	1,036	56,041
Total revenues	322,438	373,539
Expenses:		
General government	130,725	151,109
Transportation	22,205	28,422
Environmental protection	53,662	29,354
Culture and recreation	2,299	4,465
Interest on long-term debt	-	2,385
Total expenses	208,891	215,735
Increase in net position	113,547	157,804
Net position, July 1	674,563	516,759
Net position, June 30	\$ 788,110	\$ 674,563

Governmental activities: Governmental activities increased the Town's net position by \$113,547. Key elements of the increase are as follows:

- Increase in property tax revenues and other taxes
- Increase in charges for services and operating grants
- Continued diligence in controlling costs

Financial Analysis of the Town of Bayboro

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

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

Town of Bayboro Management's Discussion and Analysis

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$387,088, while total governmental fund balance reached \$526,500. As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The Town currently has an available fund balance of 162.80% of total General Fund expenditures, and total fund balance represents 221.44% of the same amount.

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.

Capital Assets. As of June 30, 2021, the Town's investment in capital assets for its governmental activities totals \$243,893 (net of accumulated depreciation). These assets include land, improvements, infrastructure, machinery and equipment and vehicles.

Town of Bayboro's Capital Assets (net of depreciation)

	Governmental Activities	
	2021	2020
Land	\$ 73,870	\$ 73,870
Land improvements	75,204	78,585
Construction in progress	37,402	-
Infrastructure	35,573	36,844
Vehicles	16,377	20,016
Machinery and equipment	5,467	6,682
Total assets	\$ 243,893	\$ 215,997

Major capital asset transactions during the year include the following:

- Construction in progress for park improvements of \$37,402
- There were no disposals this fiscal year.

Additional information on the Town's capital assets can be found in Note 3 of the basic financial statements.

Town of Bayboro Management's Discussion and Analysis

Long-term Liabilities. The Town's long-term liabilities related to net pension liabilities increased by \$1,938 (30.85%) during the current fiscal year.

Town of Bayboro's Outstanding Debt			
Governmental Activities			
	2021		2020
Net pension liability (LGERS)	\$ 8,219	\$ 6,281	

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the growth and prosperity of the Town. The Town has high unemployment, an aged population, no industrial development, and very little retail business. These factors help to create a situation where the Town's customer base is eroding. The resulting ratio of expenses versus revenues creates a difficult situation in keeping rates and fees low while maintaining an adequate level of service. In addition, most residents are on a fixed income.

Budget Highlights for the Fiscal Year Ending June 30, 2022

Tax revenues along with other general fund revenues are expected to remain constant and no property tax rate increase is being considered at this time.

Request 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 Clerk, Town of Bayboro, PO Box 99, Bayboro, NC 28583.

Town of Bayboro
Statement of Net Position
June 30, 2021
Exhibit 1

	Governmental Activities
Assets	
Current assets:	
Cash and cash equivalents	\$ 395,040
Investments	52,167
Taxes receivable	16,097
Accounts receivable	8,283
Prepays	2,000
Restricted investments	73,746
Total current assets	547,333
Non-current assets	
Capital assets:	
Land and construction in progress	111,272
Other capital assets, net of depreciation	132,621
Total capital assets	243,893
Total assets	791,226
Deferred Outflows of Resources	
Pension deferrals	9,889
Liabilities	
Current liabilities	
Accounts payable and accrued liabilities	4,736
Long-term liabilities	
Due in more than one year	8,219
Total liabilities	12,955
Deferred Inflows of Resources	
Pension deferrals	50
NET POSITION	
Net investment in capital assets	243,893
Restricted for	
Stabilization by State Statute	8,283
Powell Bill - Streets	73,746
Unrestricted	462,188
Total net position	\$ 788,110

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

Town of Bayboro
Statement of Activities
For the Year Ended June 30, 2021
Exhibit 2

					Net (Expense) Revenue and Changes in Net Position	
					Primary	
		Program Revenues				
Functions/ Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activiites	
Primary government:						
Governmental activities:						
General government	\$ 130,725	\$ 1,150	\$ 39,610	\$ -	\$ (89,965)	
Transportation	22,205	-	29,375	-	7,170	
Environmental protection	53,662	43,990	-	-	(9,672)	
Cultural and recreational	2,299	-	-	-	(2,299)	
Total governmental activities	\$ 208,891	\$ 45,140	\$ 68,985	\$ -	(94,766)	

General revenues:

Taxes:	
Property taxes, levied for general purposes	110,006
Other taxes	97,247
Investment earnings	24
Miscellaneous	1,036
Total general revenues	208,313
Change in net position	113,547
Net position, beginning as previously reported	656,792
Prior period adjustment	17,771
Net position, beginning as restated	674,563
Net position - ending	\$ 788,110

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

Town of Bayboro
Balance Sheet – Governmental Fund
June 30, 2021
Exhibit 3

	Major Fund
	General
ASSETS	
Cash and cash equivalents	\$ 395,040
Investments	52,167
Restricted investments	73,746
Taxes receivable	16,097
Accounts receivable	8,283
Prepays	2,000
Total assets	\$ 547,333
LIABILITIES	
Accounts payable and accrued liabilities	\$ 4,736
Total liabilities	4,736
DEFERRED INFLOWS OF RESOURCES	
Property tax receivable	16,097
FUND BALANCES	
Non Spendable	
Prepays	2,000
Restricted	
Stabilization of State Statute	8,283
Powell Bill - Streets	73,746
Assigned for subsequent year's expenditures	55,383
Unassigned	387,088
Total fund balances	526,500
Total liabilities, deferred inflows of resources and fund balances	\$ 547,333
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position	
Amounts reported for governmental activities in the Statement of Net Position are different because:	
Total fund balances - governmental funds	\$ 526,500
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Gross capital assets at historical cost	487,375
Accumulated depreciation	<u>(243,482)</u>
	243,893
Deferred outflows of resources related to pensions are not reported in the funds	9,889
Earned revenues considered deferred inflows of resources in the fund statements	16,097
Deferred inflows of resources related to pensions are not reported in the funds	(50)
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in funds	
Net pension liability	(8,219)
Net position of governmental funds	\$ 788,110

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

Town of Bayboro
Statement of Revenues, Expenditures, and Changes
In Fund Balance – Governmental Fund
For the Year Ended June 30, 2021
Exhibit 4

	Major Fund General
REVENUES	
Ad valorem taxes	\$ 115,558
Unrestricted intergovernmental	97,247
Restricted intergovernmental	68,985
Sales and services	45,140
Investment earnings	24
Miscellaneous	1,036
Total revenues	327,990
EXPENDITURES	
Current:	
General government	126,849
Transportation	18,824
Environmental protection	53,662
Cultural and recreational	1,028
Capital outlay	37,402
Total expenditures	237,765
OTHER FINANCING SOURCES	
Sale of capital asset	37,500
Net change in fund balances	127,725
Fund balances - beginning as previously reported	381,004
Prior period adjustment	17,771
Fund balances - beginning as restated	398,775
Fund balances - ending	\$ 526,500

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

Town of Bayboro
Reconciliation of the Statement of Revenues, Expenditures
And Changes in Fund Balance of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2021
Exhibit 4

Net change in fund balances - governmental funds	\$	127,725
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital outlay expenditures which were capitalized		37,402
Depreciation expense for governmental assets		(9,506)

Contributions to pension plan in current fiscal year		4,031
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Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds.

Gain on sale of asset		(37,500)
Change in unavailable revenue for tax revenue		(5,552)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Pension expense		(3,053)
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Total changes in net position of governmental activities	\$	113,547
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The accompanying notes are an integral part of these financial statements.

Town of Bayboro
Statement of Revenues, Expenditures, and Changes
In Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2021
Exhibit 5

	General Fund			Variance with
	Original	Final Budget	Actual Amounts	Final Budget -
	Budget			Positive
				(Negative)
REVENUES				
Ad valorem taxes	\$ 78,000	\$ 78,000	\$ 115,558	\$ 37,558
Unrestricted intergovernmental	130,345	130,345	97,247	(33,098)
Restricted intergovernmental	32,300	71,910	68,985	(2,925)
Sales and services	26,550	44,550	45,140	590
Investment earnings	-	-	24	24
Miscellaneous	500	500	1,036	536
Total revenues	267,695	325,305	327,990	2,685
EXPENDITURES				
Current:				
General government	217,745	217,745	126,849	90,896
Transportation	32,300	32,300	18,824	13,476
Environmental protection	51,350	74,350	53,662	20,688
Cultural and recreational	3,800	3,800	1,028	2,772
Capital outlay	-	39,610	37,402	2,208
Total expenditures	305,195	367,805	237,765	130,040
Revenues over (under) expenditures	(37,500)	(42,500)	90,225	132,725
OTHER FINANCING SOURCES				
Sale of capital assets	37,500	37,500	37,500	-
Fund balance appropriated	-	5,000	-	(5,000)
Net change in fund balances	\$ -	\$ -	127,725	\$ 127,725
Fund balances - beginning as previously reported			381,004	
Prior period adjustment			17,771	
Fund balances - beginning as restated			398,775	
Fund balances- ending			\$ 526,500	

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Bayboro (the “Town”) 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 is a municipal corporation governed by an elected mayor and a five-member governing board.

B. Basis of Presentation

Government-wide Statements: The Statement of Net Position and the Statement of Activities display information about the primary government. These statements include the financial activities of the overall government. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions.

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

Fund Financial Statements: The fund financial statements provide information about the Town’s funds.

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, local option sales taxes, State grants and various other taxes and licenses. The primary expenditures are for general government, transportation, and environmental protection.

C. Measurement Focus, Basis of Accounting and Financial Presentations

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 Financial Statements. The government-wide financial statements are reported using the economic resources measurement focus. The government-wide 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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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. Issuance 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 vehicle 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. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Budgetary Information

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations. The Town Manager has the authority to amend appropriations within departments. All other amendments must be approved by the governing board.

E. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

F. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Fund Equity/Net Position

1. Deposits and Investments

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

State law [G.S. 159-30(c)], authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are generally reported at fair value. The NCCMT Government Portfolio, a SEC-registered (2a-7) money market mutual fund, is measured at fair value. Because the NCCMT Government has a weighted maturity of less than 90 days, it is presented as an investment with a maturity of less than 6 months.

2. Cash and Cash Equivalents

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

Under GASB Codification 150: *Investments*, if a participant has an investment in a qualifying external investment pool that measures for financial reporting purposes all of its investments at amortized cost it should disclose the presence of any limitations or restrictions on withdrawals (such as redemption notice periods, maximum transaction amounts, and the qualifying external investment pool's authority to impose liquidity fees or redemption gates) in notes to the financial statements.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As of June 30, 2021, there were no redemption fees or maximum transaction amounts, or any other requirements that serve to limit the Town's access to 100 percent of their account value in either external investment pool.

3. Restricted Assets

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

4. Ad Valorem Taxes Receivables

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2020. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. Allowance for doubtful accounts

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

6. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Donated capital assets received prior to June 30, 2015, are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015, are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost. 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.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Buildings	50 Years
Improvements	25 Years
Vehicles	6 Years
Furniture and Equipment	10 Years
Computers	3 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 2021 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has two items that meets the criterion for this category- property taxes receivable and pension deferrals.

9. *Net Position/Fund Balances*

Net Position

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

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.

The governmental fund types classify fund balances as follows:

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 which portion of fund balance is available for appropriation. The amount of fund balance not available for appropriation is which 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 sources for street construction and maintenance expenditures. This amount represents the balance of unexpended Powell Bill funds.

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

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

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

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

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

10. Defined Benefit Cost-Sharing Plans

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

11. Recently Issued Accounting Pronouncements

The Governmental Accounting Standards Board has issued statements that will become effective in future years. These statements are as follows:

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities. The requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. The requirements of this Statement are effective for reporting periods beginning after December 15, 2020.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

In May 2019, the GASB issued Statement No. 91, *Conduit Debt Obligations*. The primary objectives of this statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures. The requirements of this Statement are effective for reporting periods beginning after December 15, 2021.

In May 2020, the GASB issued Statement No. 93, *Replacement of Interbank Offered Rates*. The objectives of this Statement are to address financial reporting issues that result from the replacement of an Interbank Offered Rate (IBOR) by providing exceptions for certain hedging derivative instruments to the hedge accounting termination provisions when an IBOR is replaced as the reference rate of the hedging derivative instrument's variable payment and clarification of the hedge accounting termination provisions when a hedged item is amended to replace the reference rate; replacing LIBOR as an appropriate benchmark interest rate for the evaluation of the effectiveness of an interest rate swap with a Secured Overnight Financing Rate or the Effective Federal Funds Rate; and providing exceptions to the lease modifications guidance in Statement 87 for lease contracts that are amended solely to replace an IBOR used to determine variable payments. The removal of LIBOR as an appropriate benchmark interest rate is effective for reporting periods ending after December 31, 2022. All other requirements of this Statement are effective for reporting periods beginning after June 15, 2021.

Note 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In June 2020, the GASB issued GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans—an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32*. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans.

The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021. For purposes of determining whether a primary government is financially accountable for a potential component unit, the requirements of this Statement that provide that for all other arrangements, the absence of a governing board be treated the same as the appointment of a voting majority of a governing board if the primary government performs the duties that a governing board typically would perform, are effective for reporting periods beginning after June 15, 2021.

In May 2020, the GASB issued GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. Governments are permitted, but are not required, to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation of this Statement.

The Town is evaluating the requirements of the above statements and the impact on reporting.

Note 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Noncompliance with North Carolina General Statutes

The Town is in violation of N.C.G.S. 159-34(a) and 159-33.1 which states that each local government shall have its accounts audited as soon as possible after the close of each fiscal year. The Town's annual audit was submitted late due to change of auditor from prior year. The Town will continue to review their procedures and policies to ensure the annual audit is submitted in a timely manner in the future.

Note 3: DETAIL NOTES ON ALL FUNDS

A. Assets

1. Deposits

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

At June 30, 2021, the Town's deposits had a carrying amount of \$394,391 and a bank balance of \$398,271. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2021, the Town's petty cash fund totaled \$649.

2. Investments

As of June 30, 2021, the Town of Bayboro had \$125,913 invested with the North Carolina Capital Management Trust's Government Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

Town of Bayboro
Notes to Financial Statements

Note 3: DETAIL NOTES ON ALL FUNDS (Continued)

3. Capital Assets

The following is a summary of changes in capital assets during the year ended June 30, 2021:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 73,870	\$ -	\$ -	\$ 73,870
Construction in progress	-	37,402	-	37,402
Total capital assets not being depreciated	73,870	37,402	-	111,272
Capital assets being depreciated:				
Infrastructure	63,525	-	-	63,525
Land improvements	212,400	-	-	212,400
Machinery and equipment	51,879	-	-	51,879
Vehicles	47,691	-	-	47,691
Furniture and fixtures	608	-	-	608
Total capital assets being depreciated	376,103	-	-	376,103
Less accumulated depreciation for:				
Infrastructure	26,681	1,271	-	27,952
Land improvements	133,815	3,381	-	137,196
Machinery and equipment	45,197	1,215	-	46,412
Vehicles	27,675	3,639	-	31,314
Furniture and fixtures	608	-	-	608
Total accumulated depreciation	233,976	9,506	-	243,482
Total capital assets being depreciated, net	142,127			132,621
Governmental activities capital assets, net	<u>\$ 215,997</u>			<u>\$ 243,893</u>

Depreciation expense was allocated to the functions or programs in the statement of activities as follows:

General government	\$ 4,854
Transportation	3,381
Cultural and recreation	1,271
Total depreciation expense	<u>\$ 9,506</u>

Note 3: DETAIL NOTES ON ALL FUNDS (Continued)

B. Liabilities

1. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Bayboro 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 Annual Comprehensive Financial Report (ACFR) for the State of North Carolina. The State's Annual Comprehensive Financial Report 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. 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 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.

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.

Note 3: DETAIL NOTES ON ALL FUNDS (Continued)

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 Bayboro 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 Bayboro's contractually required contribution rate for the year ended June 30, 2021, was 9.70% of compensation for law enforcement officers and 8.95% for general employees, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Bayboro were \$4,031 for the year ended June 30, 2021.

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, 2021, the Town reported a liability of \$8,219 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2020. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2019. The total pension liability was then rolled forward to the measurement date of June 30, 2020 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2020, the Town's proportion was 0.00023%, which was equal to its proportion measured as of June 30, 2019.

Town of Bayboro
Notes to Financial Statements

Note 3: DETAIL NOTES ON ALL FUNDS (Continued)

For the year ended June 30, 2021, the Town recognized pension expense of \$3,053. At June 30, 2021, 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
Difference between expected and actual experience	\$ 1,038	\$ -
Changes of assumptions	612	-
Net difference between projected and actual earnings on pension plan investments	1,156	-
Changes in proportion and differences between employer contributions and proportionate	3,052	50
Employer contributions subsequent to the measurement date	4,031	-
Total	\$ 9,889	\$ 50

\$4,031 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, 2022. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ending June 30,	
2022	\$ 1,842
2023	2,156
2024	1,469
2025	341
2026	-
Thereafter	-
Total	\$ 5,808

Note 3: DETAIL NOTES ON ALL FUNDS (Continued)

Actuarial Assumptions. The total pension liability in the December 31, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	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, 2019 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.

Town of Bayboro
Notes to Financial Statements

Note 3: DETAIL NOTES ON ALL FUNDS (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2020 are summarized in the following table:

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

The information above is based on 30 year expectations developed with the consulting actuary for the 2019 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. 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.

Town of Bayboro Notes to Financial Statements

Note 3: DETAIL NOTES ON ALL FUNDS (Continued)

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:

	<u>1% Decrease (6.00%)</u>	<u>Discount Rate (7.00%)</u>	<u>1% Increase (8.00%)</u>
Town's proportionate share of the net pension liability (asset)	\$ 16,675	\$ 8,219	\$ 1,191

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

b. Other Employment Benefits

The Town has elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, State-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits.

Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months' salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. Because all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

Town of Bayboro
Notes to Financial Statements

Note 3: DETAIL NOTES ON ALL FUNDS (Continued)

c. Changes in Long-term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Net pension liability (LGRS)	\$ 6,281	\$ 1,938	\$ -	\$ 8,219	\$ -

2. Deferred Outflows and Inflows of Resources

Deferred outflows of resources reported on the Statement of Net Position is comprised of the following:

Difference between expected and actual experience	\$ 1,038
Changes of assumptions	612
Net difference between projected and actual earnings on pension plan investments	1,156
Changes in proportion and differences between employer contributions and proportionate	3,052
Employer contributions subsequent to the measurement date	4,031
Total	\$ 9,889

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

Source	Statement of Net Position	General Fund Balance Sheet
Changes in proportion and differences between Town contributions and proportionate share of contributions	\$ 50	\$ -
Taxes receivable, less penalties (General Fund)	-	16,097
Total	\$ 50	\$ 16,097

Town of Bayboro
Notes to Financial Statements

Note 3: DETAIL NOTES ON ALL FUNDS (Continued)

C. 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	\$ 526,500
Less:	
Prepays	2,000
Stabilization by State Statute	8,283
Streets - Powell Bill	73,746
Appropriated Fund Balance in 2022 budget	55,383
Remaining Fund Balance	<u>\$ 387,088</u>

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

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.

In accordance with G.S. 159-29, the Town's finance officer has a performance bond for \$50,000 through a commercial surety bond agency.

Note 5: JOINTLY GOVERNED OBLIGATIONS

The Town, in conjunction with 9 counties and 45 other municipalities established the Mid-East Commission 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 director to the Council's governing board.

The Town has no equity interest nor does the Town materially contribute to the continued existence of the Council. The Town's interests are other than financial.

Note 6: SUMMARY OF DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

Note 7: RESTATEMENTS

During the fiscal year ended June 30, 2021, the Town determined deferred revenues from charges for services had not been properly adjusted for several years. Therefore, an adjustment to beginning fund balance has been recorded to account for the prior year revenues, the net effect of which increased beginning fund balance by \$17,771. These revenues were also omitted from the government-wide statements; therefore, beginning net position was adjusted by the same amount.

Note 8: UNCERTAINTIES

In March 2020, the World Health Organization made the assessment that the outbreak of the novel coronavirus (COVID-19) can be characterized as a pandemic. As a result, uncertainties have arisen that may have a significant negative impact on the ongoing operating activities and the future results of the Town. The occurrence and extent of such an impact will depend on future developments, including (i) the and spread of the virus, (ii) government quarantine measures, (iii) voluntary and precautionary restrictions on travel or meetings, (iv) the effects on the financial markets, and (v) the effects on the economy overall, all of which are uncertain as of June 30, 2021.

Town of Bayboro
Schedule of Proportionate Share of Net Pension Liability
Local Government Employees' Retirement System
Required Supplementary Information
Last Eight Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	2014
Proportion of the net pension liability (asset) (%)	0.00023%	0.00023%	0.00023%	0.00024%	0.03700%	0.00115%	0.05200%	0.05000%
Proportion of the net pension liability (asset) (\$)	8,219	6,281	5,456	3,667	7,852	5,161	4,543	3,379
Covered payroll	61,726	59,963	52,448	40,527	106,691	117,300	56,509	40,417
Proportion of the net pension liability (asset) as a percentage of its covered payroll	13.32%	10.47%	10.40%	9.05%	7.36%	4.40%	8.04%	8.36%
Plan fiduciary net position as a percentage of the total pension liability	91.63%	94.18%	91.47%	98.09%	99.07%	102.64%	94.35%	96.45%

*The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30. All information available for reporting under current GASB codifications is presented. As information becomes available, it will be included in the above table.

Town of Bayboro
Schedule of Contributions
Local Government Employees' Retirement System
Required Supplementary Information
Last Eight Fiscal Years*

	2021	2020	2019	2018	2017	2016	2015	2014
Contractually required contributions	\$ 4,031	\$ 3,544	\$ 2,857	\$ 2,455	\$ 1,945	\$ 6,866	\$ 8,415	\$ 3,379
Contributions in relation to the contractually required contributions	<u>4,031</u>	<u>3,544</u>	<u>2,857</u>	<u>2,455</u>	<u>1,945</u>	<u>6,866</u>	<u>8,415</u>	<u>3,379</u>
Contributions deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll	67,504	61,726	59,963	52,448	40,527	106,691	117,300	56,509
Contributions as a percentage of covered payroll	5.97%	5.74%	4.76%	4.68%	4.80%	6.44%	7.17%	5.98%

*All information available for reporting under current GASB codifications is presented. As information becomes available, it will be included in the above table.

Town of Bayboro
Schedule of Revenue, Expenditures, and Changes
In Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)
REVENUES			
Ad valorem taxes			
Taxes		\$ 115,558	
Total	\$ 78,000	115,558	\$ 37,558
Unrestricted intergovernmental			
Local option sales tax		45,424	
Utility franchise tax		45,875	
Beer and wine tax		5,049	
Solid waste disposal tax		899	
Total	130,345	97,247	(33,098)
Restricted intergovernmental			
CARES funds		39,610	
Powell Bill allocation		29,375	
Total	71,910	68,985	(2,925)
Sales and services			
Garbage fees		43,990	
Other		1,150	
Total	44,550	45,140	590
Investment earnings	-	24	24
Miscellaneous	500	1,036	536
Total revenues	325,305	327,990	2,685

Town of Bayboro
Schedule of Revenue, Expenditures, and Changes
In Fund Balance – Budget and Actual
General Fund
For the Year Ended June 30, 2021

	Budget	Actual	Variance Positive (Negative)
EXPENDITURES			
General government			
Administration			
Salaries and benefits		85,749	
Professional services		5,527	
Telephone		2,356	
Insurance and bonds		6,352	
Utilities		3,022	
Repairs & maintenance		7,226	
Supplies		4,253	
Other expenditures		12,364	
Total general government	217,745	126,849	90,896
Transportation			
Utilities		12,833	
Street maintenance		5,991	
Total transportation	32,300	18,824	13,476
Environmental protection			
Sanitation services		53,478	
Other operating expenses		184	
Total environmental protection	74,350	53,662	20,688
Cultural and recreational			
Recreation		445	
Other operating expenses		583	
Total cultural and recreational	3,800	1,028	2,772
Capital outlay	39,610	37,402	2,208
Total expenditures	367,805	237,765	130,040
Revenues over (under) expenditures	(42,500)	90,225	132,725
OTHER FINANCING SOURCES			
Sale of capital asset	37,500	37,500	-
Fund balance appropriated	5,000	-	(5,000)
Net change in fund balances	\$ -	127,725	\$ 127,725
Fund balances, beginning as previously reported		381,004	
Prior period adjustment		17,771	
Fund balances, beginning as restated		398,775	
Fund balances, ending		\$ 526,500	

Town of Bayboro
Schedule of Ad Valorem Taxes Receivable
June 30, 2021

Fiscal Year	Uncollected Balance June 30, 2020	Additions	Collections and Credits	Uncollected Balance June 30, 2021
2020-2021	\$ -	\$ 106,034	\$ 101,490	\$ 4,544
2019-2020	6,389	-	3,427	2,962
2018-2019	3,342	-	1,050	2,292
2017-2018	2,684	-	1,163	1,521
2016-2017	2,097	-	1,031	1,066
2015-2016	1,412	-	593	819
2014-2015	1,535	-	623	912
2013-2014	1,367	-	667	700
2012-2013	1,260	-	530	730
2011-2012	834	-	283	551
2010-2011	730	-	730	-
	<u>\$ 21,650</u>	<u>\$ 106,034</u>	<u>\$ 111,587</u>	<u>16,097</u>

Reconcilement with revenues:

Ad valorem taxes - General Fund	\$ 115,558
Penalties and interest	(3,506)
Taxes written off	<u>(465)</u>
Total collections and credits	<u>\$ 111,587</u>

Town of Bayboro
Analysis of Current Tax Levy
For the Year Ended June 30, 2021

	Property Valuation	Rate	Total Levy	Total Levy	
				Property excluding Registered Motor Vehicles	Registered Motor Vehicles
Property taxed at current	\$ 42,413,690	0.25	\$ 106,034	\$ 92,664	\$ 13,370
Total property valuation	<u>\$ 42,413,690</u>				
Net levy			106,034	92,664	13,370
Uncollected taxes at June 30, 2021			<u>4,544</u>	<u>4,544</u>	<u>-</u>
Current year's tax collected			<u>\$ 101,490</u>	<u>\$ 88,120</u>	<u>\$ 13,370</u>
Current levy collection percentage			<u>95.71%</u>	<u>95.10%</u>	<u>100.00%</u>

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of the Town of Bayboro, North Carolina (the "Town"), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprises the Town's basic financial statements, and have issued our report thereon dated May 4, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) as a basis for designing 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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses as items 2021-1 and 2021-2 that we consider to be significant deficiencies.

Compliance and Other Matters

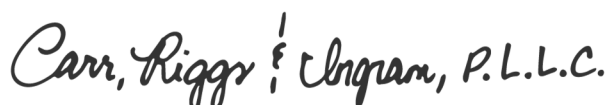
As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement. 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 Bayboro's Response to Findings

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



CARR, RIGGS & INGRAM, P.L.L.C.

New Bern, North Carolina

May 4, 2022

Town of Bayboro
Schedule of Findings and Responses
For the Year Ended June 30, 2021

Significant Deficiency

2021-1 Noncompliance with North Carolina General State Statute

Criteria: North Carolina G.S. 159-34(a) states that each unit of local government shall have its accounts audited as soon as possible after the close of each fiscal year.

Condition: The Town had a change in auditor from the previous year, which created a delay in completing the audit.

Effect: The Town's audit was not completed in a timely manner.

Cause: A change in auditor from the previous year caused delays in completing the audit.

Recommendation: The Town should continue to review their procedures and policies to ensure that the annual audit is completed in a timely manner.

Views of responsible officials: The Town agrees with this finding and has set forth a corrective action plan.

Corrective action: The Town is reviewing their procedures and policies to ensure the annual audit is completed timely in future years. In addition, the Town will closely monitor their reporting requirements.

Town of Bayboro
Schedule of Findings and Responses
For the Year Ended June 30, 2021

Significant Deficiency

2021-2 Proper Recording of Charges for Services

Criteria: Charges for services should be properly identified and recorded in the period in which they occur.

Condition: The Town recorded deferred revenues related to charges for services in the incorrect period, which resulted in revenues not being recognized in the correct period.

Effect: Revenues related to charges for services have been understated for the previous three years.

Cause: The Town had turnover in key positions within the accounting department and the accounts in question were not properly reviewed by Town staff for several years.

Recommendation: The Town should continue to review their procedures and policies to ensure that all accounts are properly reviewed and recorded in the proper period.

Views of responsible officials: The Town agrees with this finding and has set forth a corrective action plan.

Corrective action: The Town is reviewing their procedures and policies to ensure all accounts are properly reviewed and recorded in the proper period. Additionally, the Town has implemented billing for services via property tax billing performed by Pamlico County.