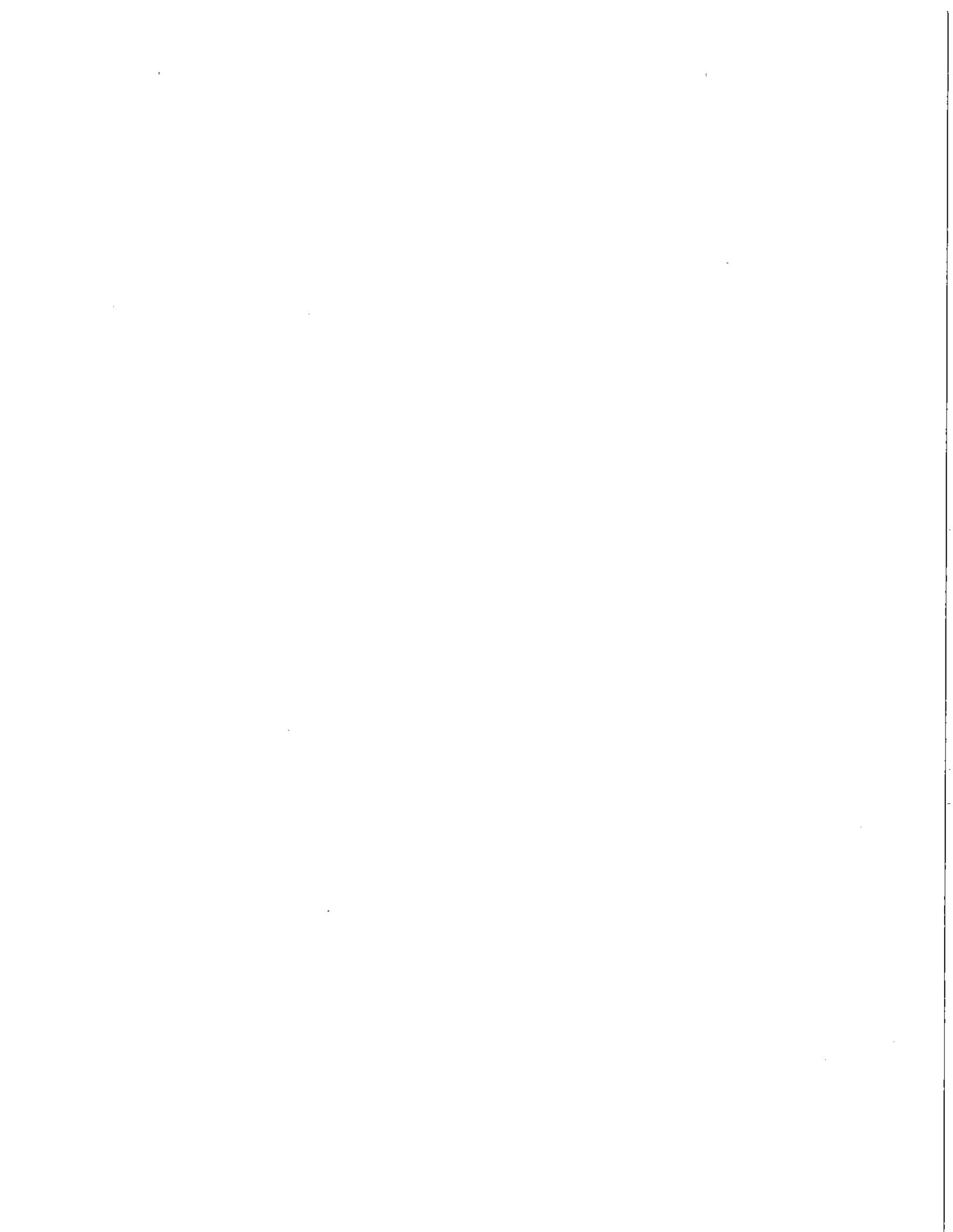


FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012



ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2012

"PRIDE IN OUR PAST, FAITH IN OUR FUTURE"



Town Council Members

William B. Moore, Mayor
Eddie Henderson, Mayor Pro-Tem
Hugh Clark
Robert Davy
Sheila Franklin

Administrative and Financial Staff

Mark Biberdorf, Town Manager
Heather Taylor, Finance Officer

*Prepared by
Heather N. Taylor, Finance Officer*



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**Town of Fletcher, North Carolina
Financial Report
For the Year Ended June 30, 2012**

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FINANCIAL SECTION



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Lowdermilk Church & Co., L.L.P.
Certified Public Accountants

121 N. Sterling Street
Morganton, North Carolina 28655
Phone: (828) 433-1226
Fax: (828) 433-1230

Independent Auditors' Report

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Fletcher, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Fletcher, North Carolina's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Fletcher ABC Board. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Fletcher ABC Board, is based solely on the report of another auditor.

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 Fletcher ABC Board were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Fletcher, North Carolina as of June 30, 2012, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 19, 2012 on our consideration of the Town of Fletcher, North Carolina'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 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 and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and Law Enforcement Officers Special Allowance and Other Postemployment Benefits Schedules of Funding Progress and Schedules of Employer Contributions on pages iii through xiv and 35 through 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Fletcher, North Carolina's financial statements as a whole. The individual fund financial statements, and other schedules are presented for purposes of additional analysis and are not a required part of the financial statements. The individual fund financial statements 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Law Firm of Church & Co.

October 19, 2012

Management's Discussion and Analysis

As management of the Town of Fletcher (the Town), we offer readers of the Town of Fletcher's financial statements this narrative overview and analysis of the financial activities of the Town of Fletcher for the fiscal year ended June 30, 2012. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

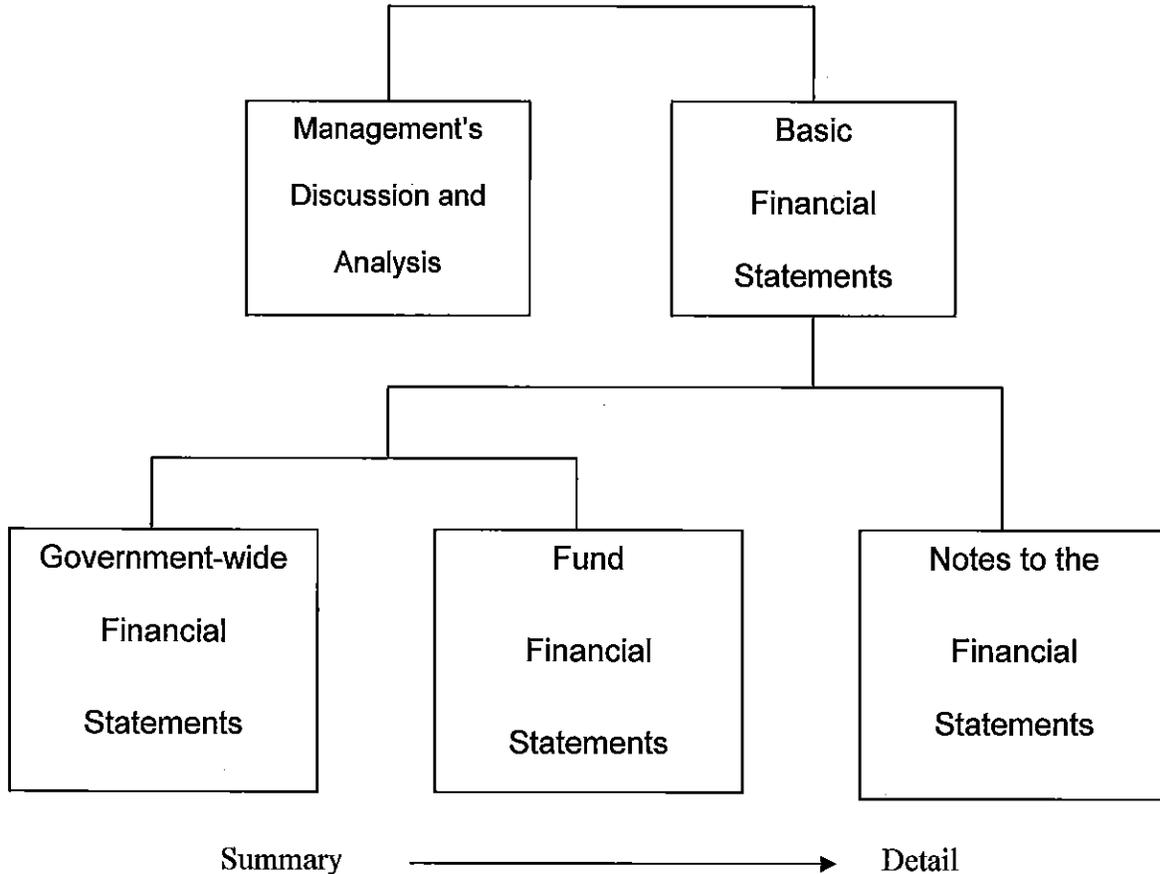
- The assets of the Town of Fletcher *exceeded* its liabilities at the close of the fiscal year by \$9,577,237 (*net assets*).
- The government's total net assets *increased* by \$936,214, primarily due to *increases* in the *governmental type* activities net assets.
- As of the close of the current fiscal year, the Town's governmental fund reported combined ending fund balances of \$10,982,280, with a net change of \$8,756,791 in fund balance. Approximately 82.74 percent of this total amount, or \$9,086,580, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,681,472, or 37.68 percent of total general fund expenditures for the fiscal year.
- The Town of Fletcher's total debt increased by \$9,309,254 (2817.68%) during the current fiscal year. The key factor in this increase was the issuance of a \$9,500,000 installment purchase contract for the Town Hall project.

Overview of the Financial Statements

This discussion and analysis is 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.

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 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, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the General Statutes also can be found in this part of the statements.

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 assets and how they have changed. Net assets are the difference between the Town's total assets and total liabilities. Measuring net assets is one way to gauge the Town's financial condition.

The government-wide statements are divided into two categories: 1) governmental activities; and 2) 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 final category is the component unit. Although legally separate from the Town, the Fletcher ABC Board is important to the Town because the Town exercises control over the Board by appointing its members and because 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 Exhibits 3 through 5) 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 are governmental 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 Assets 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.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 10-34 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 35 of this report.

Government-Wide Financial Analysis

Town of Fletcher, Net Assets
Figure 2

	Governmental	
	Activities	
	June 30	
	2012	2011
Current and other assets	\$ 11,163,092	\$ 2,416,050
Capital assets	8,252,571	6,713,804
Total assets	19,415,663	9,129,854
Long-term liabilities outstanding	9,734,934	427,600
Other liabilities	103,492	61,231
Total liabilities	9,838,426	488,831
Net assets:		
Invested in capital assets, net of related debt	6,462,717	6,383,426
Restricted	1,236,802	1,216,802
Unrestricted	1,877,718	1,040,795
Total net assets	\$ 9,577,237	\$ 8,641,023

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town exceeded liabilities by \$9,577,237 as of June 30, 2012. The Town's net assets *increased* by \$936,214 for the fiscal year ended June 30, 2012.

However, the largest portion (67.48%) reflects the Town's investment in capital assets (e.g. land, buildings, machinery and equipment) less any related debt outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the Town's net assets, \$1,236,802 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,877,718 is unrestricted.

Several particular aspects of the Town's financial operations positively influenced the unrestricted portion of net assets:

- The unrestricted net assets were positively influenced due to savings in debt service expenditures due to the timing of the financing for the new Town Hall building.
- Increased sales tax revenues of approximately \$172,000 due to increase in economic activity in Henderson County.
- The Town continued its diligence in the collection of property taxes by attaining a tax collection percentage of 98.53% which is comparable to the statewide average of 97.42%

Town of Fletcher's Change in Net Assets
Figure 3

	Governmental	
	Activities	
	Years Ended June 30	
	2012	2011
Revenues		
Program revenues:		
Charges for service	\$ 153,972	\$ 176,375
Operating grants and contributions	212,761	210,681
Capital grants and contributions	-	239,599
General revenues:		
Property taxes	3,063,981	3,118,753
Other taxes	1,184,193	986,737
Grants and contributions not restricted to specific programs	648,223	650,401
Other	22,918	16,120
Total revenues	5,286,048	5,398,666
Expenses		
General government	683,886	686,597
Public safety	2,027,647	1,975,897
Transportation	913,005	854,256
Economic and physical development	236,932	229,402
Cultural and recreation	454,945	419,390
Interest on long term debt	33,419	15,835
Total expenses	4,349,834	4,181,377
Increase in net assets	936,214	1,217,289
Net Assets, July 1	8,641,023	7,423,734
Net Assets, June 30	\$ 9,577,237	\$ 8,641,023

Governmental Activities – Governmental activities increased the Town’s net assets by \$936,214.

Key elements of this increase are as follows:

- Tax revenues remained steady.
- Recreational programs continued to generate revenues to offset programs and services.
- State sales tax revenue was higher than projected (22.63%).

Financial Analysis of the Town’s Funds

As noted 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.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, Town of Fletcher’s fund balance available in the General Fund was \$2,598,364 while total fund balance reached \$3,132,502. The Town currently has an available fund balance of 58.23% of general fund expenditures, while total fund balance represents 70.20% of the same amount.

At June 30, 2012, the governmental fund of the Town of Fletcher reported a fund balance of \$10,982,280 with a net increase in fund balance of \$8,756,791. Included in this change in fund balance is an increase in the General Fund as well as the Town Hall Capital Project Fund.

General Fund Budgetary Highlights – During the fiscal year, the Town revised the budget on four 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.

- An amendment was made to purchase and replace a SCAG mower to maintain services.
- An amendment was made to fund expenditures to account for compliance with FCC regulations in regards to narrow banding of police radios.
- An amendment was made to account for a Utilities Franchise revenue audit.
- An amendment was made to account for an increase in special called meeting expenditures for Governing Board due to Town Hall project.

- An amendment was made to increase appropriations in M&R Town facilities to maintain and improve heating and cooling in buildings.
- An amendment was made to transfer funds from the Town Hall Capital Project Fund to the General Fund.

Capital Asset and Debt Administration

Capital Assets – The Town’s investment in capital assets for its governmental activities as of June 30, 2012 and 2011, totaled \$8,252,571 and \$6,713,804, respectively (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following additions:

- Acquisition of new police cars of \$89,283.
- Acquisition of public works truck of \$35,290.
- Acquisition of a mower for recreation of \$9,266.
- Construction in progress for Town Hall capital assets of \$1,580,424.

Capital asset disposals for the year ended June 30, 2012 included vehicles and equipment totaling \$46,238.

Town of Fletcher's Capital Assets
Figure 4

	Governmental Activities	
	June 30	
	2012	2011
Land	\$ 2,586,847	\$ 2,586,847
Construction in progress	1,950,743	370,319
Land improvements	2,607,922	2,626,256
Buildings and improvements	722,472	752,977
Equipment and furniture	146,146	181,099
Vehicles	238,441	196,306
 Total	 \$ 8,252,571	 \$ 6,713,804

Additional information on the Town's capital assets can be found in note 3 of the Basic Financial Statements.

Long-term Debt – As of June 30, 2012, the Town’s long-term debt consisted of installment purchase contracts.

Town of Fletcher's Outstanding Debt
Figure 5

	Governmental Activities	
	June 30	
	2012	2011
Installment purchase contracts	<u>\$ 9,639,632</u>	<u>\$ 330,387</u>

Town of Fletcher’s Outstanding Debt

The Town’s total debt increased by \$9,309,254 (2817.68%) during the fiscal year, primarily due to the issuance of \$9,500,000 in installment purchase financing to construct the Town Hall.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to eight percent of the total assessed value of taxable property located within that government’s boundaries. The legal debt margin for the Town is \$75,513,083.

Additional information regarding the Town’s long-term debt can be found in note 9 of the Basic Financial Statements.

Economic Factors and Next Year’s Budgets and Rates

The following key economic indicators were used in the budget preparation for the fiscal year ending June 30, 2013.

- We are continuing to see slow but steady growth in the economy. Estimates for growth in the economy are around 2% for the coming year.
- Revenues for the state are continuing to improve but still less than base levels from several years ago.
- Commercial/Industrial growth in Fletcher continues to be strong. Legacy Paddlesports announced a relocation of their manufacturing process to Fletcher. Existing industry expansions were announced for Putsch, Cane Creek Cycling, Raflatac, and Blue Ridge Metals.
- Residential construction activity continues to be very slow. The only application for any major residential projects was the Braeburn apartment complex.

- Retail sales are continuing to improve at both the state and local level. We are expecting sales tax revenues to grow much more significantly locally though with budgeted revenues for Fletcher going from \$862,000 to \$1,000,000.
- An increase in the overall budget for Fletcher is coming primarily from sales tax revenues and some growth in property taxes.
- The increase in the revenue base helped support the reinstatement of two previously frozen positions (Police Officer and Public Works Supervisor). These positions were deemed important in helping to maintain existing service levels for their respective departments.
- No other major expenditures were planned for this fiscal year other than continued support for the Town Hall capital project. This is being funded within the debt service portion of the Town's Capital Improvement Plan.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Certain goals and priorities were identified in the new budget year. Those goals included the following:

- Have a significant portion of the construction of Town Hall complete by the end of FY 2012-2013.
- Maintain existing service levels with some increase in personnel expense and revenues.
- Continue to dedicate 8.5 cents of the tax levy toward CIP projects.
- Explore options for a new developer partner for the Heart of Fletcher.

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 Heather N. Taylor, Finance Officer, 4005 Hendersonville Road, Fletcher, North Carolina 28732. You can also call (828) 687-3985, visit our website www.fletchernc.org or send an email to h.taylor@fletchernc.org for more information.

Basic Financial Statements

Town of Fletcher, North Carolina
Statement of Net Assets
June 30, 2012

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Town of Fletcher ABC Board</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,974,832	\$ 189,532
Taxes receivable (net)	91,452	-
Accounts receivable	507,205	-
Inventories	-	167,475
Net pension asset	10,228	-
Prepaid items	26,933	12,886
Restricted cash and cash equivalents	<u>8,552,442</u>	<u>-</u>
 Total current assets	 <u>11,163,092</u>	 <u>369,893</u>
Non-current assets:		
Capital assets (Note 3):		
Land, non-depreciable improvements, and construction in progress	4,537,590	241,372
Other capital assets, net of depreciation	<u>3,714,981</u>	<u>854,637</u>
 Total capital assets	 <u>8,252,571</u>	 <u>1,096,009</u>
 Total assets	 <u>\$ 19,415,663</u>	 <u>\$ 1,465,902</u>

Exhibit 1

	Primary Government	Component Unit
	Governmental Activities	Town of Fletcher ABC Board
Liabilities		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 69,260	\$ 123,134
Unearned revenue	9,872	-
Accrued interest payable	24,360	-
Current portion of long-term liabilities	386,146	65,604
Long-term liabilities:		
Due in more than one year	9,348,788	389,075
Total liabilities	9,838,426	577,813
Net Assets		
Invested in capital assets, net of related debt	6,462,717	641,330
Restricted for:		
Prepaid items	26,933	-
Stabilization by State Statue	507,205	-
Streets	689,379	-
Police	13,285	-
Law Enforcement	-	191
Alcohol Rehabilitation and Education	-	267
Municipality Profit Distribution	-	22,196
Working Capital	-	48,921
Unrestricted	1,877,718	175,184
Total net assets	\$ 9,577,237	\$ 888,089

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

**Town of Fletcher, North Carolina
Statement of Activities
For the Year Ended June 30, 2012**

Functions/Programs	Expenses	Program Revenues		
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 683,886	\$ 13,994	\$ -	\$ -
Public safety	2,027,647	22,430	16,752	-
Transportation	913,005	-	182,947	-
Economic and physical development	236,932	-	-	-
Cultural and recreation	454,945	117,548	13,062	-
Interest on long-term debt	33,419	-	-	-
Total governmental activities	\$ 4,349,834	\$ 153,972	\$ 212,761	\$ -
Component Unit:				
ABC Board	\$ 1,655,078	\$ 1,655,280	\$ -	\$ -

General Revenues:

Taxes:

 Property taxes, levied for general purpose

 Other taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on the sale of capital assets

Miscellaneous

Total general revenues

Change in net assets

Net assets, beginning

Net assets, ending

Exhibit 2

**Net (Expense) Revenue and
Changes in Net Assets**

<u>Primary Government</u>	<u>Component Unit</u>
<u>Governmental Activities</u>	<u>Town of Fletcher ABC Board</u>
\$ (669,892)	\$ -
(1,988,465)	-
(730,058)	-
(236,932)	-
(324,335)	-
(33,419)	-
<u>(3,983,101)</u>	<u>-</u>
-	202
3,063,981	-
1,184,193	-
648,223	-
4,251	300
6,810	-
11,857	7,000
<u>4,919,315</u>	<u>7,300</u>
936,214	7,502
<u>8,641,023</u>	<u>880,587</u>
<u>\$ 9,577,237</u>	<u>\$ 888,089</u>

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



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Fund Financial Statements

**Town of Fletcher, North Carolina
Balance Sheet
Governmental Funds
June 30, 2012**

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Project</u>	
Assets:			
Cash and Cash Equivalents	\$ 1,974,832	\$ -	\$ 1,974,832
Restricted Cash	702,664	7,849,778	8,552,442
Receivables, Net:			-
Taxes	91,452	-	91,452
Accounts	507,205	-	507,205
Prepaid Items	26,933	-	26,933
	<u>3,303,086</u>	<u>7,849,778</u>	<u>11,152,864</u>
Total Assets	\$ 3,303,086	\$ 7,849,778	\$ 11,152,864
Liabilities and Fund Balances:			
Liabilities:			
Accounts Payable and Accrued Liabilities	\$ 69,260	\$ -	\$ 69,260
Deferred Revenue	101,324	-	101,324
	<u>170,584</u>	<u>-</u>	<u>170,584</u>
Total Liabilities	170,584	-	170,584
Fund Balances:			
Nonspendable			
Prepaid Items	26,933	-	26,933
Restricted			
Stabilization by State Statute	507,205	-	507,205
Financing	-	7,849,778	7,849,778
Streets	689,379	-	689,379
Police	13,285	-	13,285
Committed			
Sidewalk	6,050	-	6,050
Future Park Development	56,363	-	56,363
Assigned			
Subsequent year's expenditures	134,436	-	134,436
Board assigned	17,379	-	17,379
Unassigned			
	<u>1,681,472</u>	<u>-</u>	<u>1,681,472</u>
Total Fund Balances	3,132,502	7,849,778	10,982,280
	<u>\$ 3,303,086</u>	<u>\$ 7,849,778</u>	<u>\$ 11,152,864</u>
Total Liabilities and Fund Balances	\$ 3,303,086	\$ 7,849,778	\$ 11,152,864

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

**Town of Fletcher, North Carolina
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2012**

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

Total Fund Balance, Governmental Fund	\$ 10,982,280
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	8,252,571
Liabilities for earned but deferred revenues in fund statements.	
Uncollected property taxes	91,452
Net pension assets are not financial resources and therefore are not reported in the funds	10,228
Other long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Long-term debt	(9,639,632)
Compensated absences	(81,623)
Other postemployment benefits	(13,679)
Accrued Interest Payable	(24,360)
	\$ 9,577,237
Net Assets of Governmental Activities	\$ 9,577,237

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

Town of Fletcher, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2012

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Capital Project</u>	
REVENUES			
Ad valorem taxes	\$ 3,077,806	\$ -	\$ 3,077,806
Other taxes and licenses	58,901	-	58,901
Unrestricted intergovernmental	1,768,588	-	1,768,588
Restricted intergovernmental	205,096	-	205,096
Permits and fees	27,750	-	27,750
Sales and services	138,814	-	138,814
Investment earnings	3,628	624	4,252
Miscellaneous	11,857	-	11,857
Total revenues	<u>5,292,440</u>	<u>624</u>	<u>5,293,064</u>
EXPENDITURES			
Current:			
General government	650,891	1,580,424	2,231,315
Public safety	2,023,573	-	2,023,573
Transportation	906,583	-	906,583
Economic and physical development	237,000	-	237,000
Cultural and recreation	444,807	-	444,807
Debt service:			
Principal	190,746	-	190,746
Interest and other charges	9,059	-	9,059
Total expenditures	<u>4,462,659</u>	<u>1,580,424</u>	<u>6,043,083</u>
Excess (deficiency) of revenues over expenditures	<u>829,781</u>	<u>(1,579,800)</u>	<u>(750,019)</u>
OTHER FINANCING SOURCES (USES)			
Installment financing contracts	-	9,500,000	9,500,000
Transfers from other funds	-	(70,422)	(70,422)
Transfers to other funds	70,422	-	70,422
Sale of capital assets	6,810	-	6,810
Total other financing sources (uses)	<u>77,232</u>	<u>9,429,578</u>	<u>9,506,810</u>
Net change in fund balance	907,013	7,849,778	8,756,791
Fund balances, beginning	<u>2,225,489</u>	<u>-</u>	<u>2,225,489</u>
Fund balances, ending	<u>\$ 3,132,502</u>	<u>\$ 7,849,778</u>	<u>\$ 10,982,280</u>

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

**Town of Fletcher, North Carolina
Reconciliation of the Statement of Revenues
Expenditures, and Changes in Fund Balances of the
Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2012**

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

Net Change in Fund Balances - Total Governmental Funds	\$ 8,756,791
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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.

Capital outlay expenditures that were capitalized	133,839
Capital project expenditures that were capitalized	1,580,424
Depreciation expense for governmental activities	(175,496)
Gain (loss) on sale of capital assets	6,810
Proceeds from sale of capital assets	(6,810)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in deferred revenue for tax revenues	(13,825)
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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 assets.

New long-term debt issued	(9,500,000)
Principal payments on long-term debt	190,746
Increase in accrued interest payable	(24,360)

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.

Change in compensated absences	4,870
Other postemployment benefits	(2,950)
Net pension asset	(13,825)

Total Change in Net Assets of Governmental Activities	\$ <u>936,214</u>
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The notes to the financial statements are an integral part of this statement.

Town of Fletcher, North Carolina
Statement of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2012

	General Fund			Variance with Final Budget- Positive (Negative)
	Budget		Actual Amounts	
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 2,996,626	\$ 2,996,626	\$ 3,077,806	\$ 81,180
Other taxes and licenses	30,000	30,000	58,901	28,901
Unrestricted intergovernmental	1,537,500	1,543,600	1,768,588	224,988
Restricted intergovernmental	200,400	200,400	205,096	4,696
Permits and fees	27,000	27,000	27,750	750
Sales and services	128,633	128,633	138,814	10,181
Investment earnings	4,000	4,000	3,628	(372)
Miscellaneous	11,000	11,000	11,857	857
Total revenues	<u>4,935,159</u>	<u>4,941,259</u>	<u>5,292,440</u>	<u>351,181</u>
Expenditures:				
Current:				
General government	757,819	764,996	650,891	114,105
Public safety	2,074,122	2,078,347	2,023,573	54,774
Economic and physical development	270,441	270,441	237,000	33,441
Transportation	924,526	939,526	906,583	32,943
Cultural and recreation	461,734	474,734	444,807	29,927
Debt service:				
Principal	260,837	260,837	190,746	70,091
Interest and other charges	334,851	334,851	9,059	325,792
Total expenditures	<u>5,084,330</u>	<u>5,123,732</u>	<u>4,462,659</u>	<u>661,073</u>
Revenues Over (Under) Expenditures	<u>(149,171)</u>	<u>(182,473)</u>	<u>829,781</u>	<u>1,012,254</u>
Other Financing Sources (Uses):				
Transfers from other funds	-	70,422	70,422	-
Sale of capital assets	2,500	2,500	6,810	4,310
Fund balance appropriated	146,671	109,551	-	(109,551)
Total other financing sources (uses)	<u>149,171</u>	<u>182,473</u>	<u>77,232</u>	<u>(105,241)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	907,013	<u>\$ 907,013</u>
Fund balance, beginning			<u>2,225,489</u>	
Fund balance, ending			<u>\$ 3,132,502</u>	

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

**Town of Fletcher, North Carolina
Notes to the Financial Statements
For the Year Ended June 30, 2012**

Note 1 – Summary of Significant Accounting Policies

The Town of Fletcher, North Carolina (the Town) was incorporated on June 6, 1989. The accounting policies of the Town 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 is a municipal corporation that is governed by an elected mayor and a four-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 Fletcher 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 office located at 37 Rockwood Road, Fletcher, NC 28732.

B. Basis of Presentation

Government-wide Statements: The statement of net assets 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. Governmental activities are generally 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 emphasis of fund financial statements is on its major governmental fund. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Town reports the following major governmental funds:

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

Capital Project Fund~ Town Hall Project. This fund is used to account for the construction of a new Town Hall.

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 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.

Nonexchange 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 are 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. 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 are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Henderson County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Fletcher. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Henderson County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues.

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets 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.

As permitted by generally accepted accounting principles, the Town has elected to apply only applicable FASB Statements and Interpretations issued on or before November 30, 1989 that do not contradict GASB pronouncements in its accounting and reporting practices for its proprietary operations.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at fiscal year-end. All budgets are prepared using the modified accrual basis of accounting, which is consistent with the accounting system used to record transactions. Project ordinances are adopted for Capital Project Funds including the Town Hall project.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the project level for multi-year funds. All budget amendments for all funds must be approved by the Town Council. The financial statement budget columns reflect all budget amendments adopted by the Town Council through June 30. During the year, several amendments to the original budget became necessary, the effects of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual budget ordinance can be adopted.

E. Assets, Liabilities and Fund Equity

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 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).

The Town and the ABC Board's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a-7) money market mutual fund are valued at fair value, which is the NCCMT's share price.

Cash and Cash Equivalents

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

Restricted Assets

The unexpended financing proceeds of the installment purchase financing issued by the Town are classified as restricted assets for the capital project fund because their use is completely restricted to the purpose for which the financing proceeds were originally issued. Powell Bill funds are classified as restricted cash because it can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. Police Narcotic funds are also classified as restricted cash because it can be expended for police equipment expenditures only.

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6th. The taxes are based on the assessed values as of January 1, 2011.

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.

Inventories and Prepaid Items

The inventories of the ABC Board are valued at lower of cost (first-in, first-out) or market. The inventories consist of materials and supplies held for resale. The costs of the inventories are recorded as an expense as the inventories are sold. 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.

Capital Assets

Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The costs 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 (in Years)</u>
Equipment and Furniture	5 years
Vehicles	5 years
Land Improvements	30 years
Buildings and Improvements	40 years

Capital assets of the ABC Board are recorded at original cost at the time of acquisition. Property, plant, 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 (in Years)</u>
Office/Store Equipment	5 years
Leasehold Improvements	10 years
Buildings	20 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

In fund financial statements, proceeds from installment contracts are reported as other financing sources. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

Compensated Absences

The vacation policy of the Town provides for the accumulation of vacation leave based upon years of service. For the Town's government-wide activities, an expense and a liability for compensated absences and salary-related payments are recorded as the leave is earned. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements. Employees may accumulate and carry over a maximum of 240 hours vacation leave. Employees may convert any excess vacation leave into sick leave.

The Town's sick leave policy provides for 96 hours of sick leave annually and unlimited accumulation of earned sick leave. Sick leave does not vest; but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since the Town has no obligation for the accumulated sick leave until it is actually taken, no accrual for sick leave has been made.

Net Assets

Net assets in government-wide financial statements are classified as invested in capital assets, net of related debt; restricted; and unrestricted. Restricted net assets 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 five classifications designed to disclose the hierarchy of constraints placed on how fund balance can be spent.

The governmental fund types classify fund balances as follows:

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

Prepaid Items – portion of fund balance which is **not** available for appropriation because it represents the year-end balance of prepaid items, which are not expendable available resources.

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

Restricted by Stabilization by State statute – portion of fund balance that is restricted by State Statute [G.S.159-8(a)].

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

Restricted for Police – portion of fund balance that is available for appropriation but legally segregated for police equipment expenditures. This amount represents the balance of the total unexpended Narcotics Forfeitures funds.

Restricted for Financing – portion of fund balance that is imposed by creditors for Town Hall project. This amount represents the balance of the total unexpended financing proceeds.

Committed Fund Balance- portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Fletcher's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing board.

Committed for Sidewalks- portion of fund balance that is restricted for use by the Land Development Code and the governing board for sidewalk or greenway projects.

Committed for Future Park Development – portion of fund balance that is available for appropriation but has been reserved by the governing body for the future development of a parks and recreation facility.

Assigned Fund Balance- portion of fund balance that Town of Fletcher intends to use for specific purposes.

Subsequent Year's Expenditures – portion of fund balance that is appropriated in next year's budget by the governing board that is not already classified in restricted or committed.

Board Assigned – portion of fund balance that is available for appropriation that has been assigned by the governing board for individual expenditures in the subsequent year.

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

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

Note 2 – Deposits and Investments

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 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 or the ABC Board 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 and the ABC Board have no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifies that deposits are properly secured.

At June 30, 2012, the Town's deposits had a carrying amount of \$2,677,176 and a bank balance of \$2,822,109. 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 \$187,382 and a bank balance \$198,451. Federal depository insurance covers \$250,000 of the bank balance. At June 30, 2012, the Town's petty cash fund totaled \$320.

Investments:

At June 30, 2012, the Town had \$7,849,778 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

Note 2 – Receivables- Allowance for Doubtful Accounts

The amounts presented in the Balance Sheet and the Statement of Net Assets are net of the following allowance for doubtful accounts:

General Fund:

Taxes Receivable	<u>\$ 5,000</u>
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Note 3 – Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2012, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 2,586,847	\$ -	\$ -	\$ 2,586,847
Construction in Progress	370,319	1,580,424	-	1,950,743
	<u>2,957,166</u>	<u>1,580,424</u>	<u>-</u>	<u>4,537,590</u>
Capital Assets Being Depreciated:				
Land Improvements	2,741,091	-	-	2,741,091
Buildings and Improvements	1,151,288	-	-	1,151,288
Equipment and Furniture	658,113	9,266	7,224	660,155
Vehicles	867,053	124,573	39,014	952,612
	<u>5,417,545</u>	<u>133,839</u>	<u>46,238</u>	<u>5,505,146</u>
Total Capital Assets Being Depreciated				
Less Accumulated Depreciation For:				
Land Improvements	114,835	18,334	-	133,169
Buildings and Improvements	398,311	30,505	-	428,816
Equipment and Furniture	477,014	44,219	7,224	514,009
Vehicles	670,747	82,438	39,014	714,171
	<u>1,660,907</u>	<u>\$ 175,496</u>	<u>\$ 46,238</u>	<u>1,790,165</u>
Total Accumulated Depreciation				
Total Capital Assets Being Depreciated, Net	<u>3,756,638</u>			<u>3,714,981</u>
Governmental Activities Capital Assets, Net	<u>\$ 6,713,804</u>			<u>\$ 8,252,571</u>

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

General Government	\$ 33,841
Public Safety	80,128
Recreation	19,182
Transportation	<u>42,345</u>
Total Depreciation Expense	<u>\$ 175,496</u>

Construction Commitments

The government has active construction projects as of June 30, 2012. At year-end, the government's commitments with contractors are as follows:

Project	Spent-to-date	Remaining Commitment
Town Hall	\$ -	\$ 7,113,368
Total	\$ -	\$ 7,113,368

Discretely Presented Component Unit

Activity for the ABC Board for the year ended June 30, 2012, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Capital Assets Not Being Depreciated:				
Land	\$ 241,372	\$ -	\$ -	\$ 241,372
Capital Assets Being Depreciated:				
Buildings	970,514	-	-	970,514
Furniture and Equipment	138,823	508	-	139,331
Total Capital Assets Being Depreciated	1,109,337	508	-	1,109,845
Less Accumulated Depreciation for:				
Buildings	143,357	38,821	-	182,178
Furniture and Equipment	59,066	13,964	-	73,030
Total Accumulated Depreciation	202,423	\$ 52,785	\$ -	255,208
Total Capital Assets Being Depreciated, Net	906,914			854,637
ABC Board Capital Assets, Net	\$ 1,148,286			\$ 1,096,009

Note 4 – Pension Plan and Postemployment Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town and the ABC Board contribute to the statewide Local Government Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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. The 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. Plan members are required to contribute 6% of their annual covered salary. The Town and the ABC Board are required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement is 7.47%, of annual covered payroll. For law enforcement officers the first three months were at a rate of 7.63%, and the remaining year at 7.47%, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 6.88% of annual covered payroll. The contribution requirements of members and of the Town and the ABC Board are established and may be amended by the North Carolina General Assembly.

A summary of the contributions by the Town and the ABC Board for the last three years is as follows:

<u>Contributions</u>	<u>Town of Fletcher</u>	<u>ABC Board</u>
2012	\$ 97,867	\$ 8,196
2011	88,633	8,570
2010	74,335	6,190
Total	<u>\$ 260,835</u>	<u>\$ 22,956</u>

The contributions made by the Town and the ABC Board equaled the required contributions for each year.

Law Enforcement Officers' Separation Allowance

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. 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.

The Separation Allowance covers all full-time law enforcement officers of the Town. At December 31, 2011, the Separation Allowance's membership consisted of:

Retirees currently receiving benefits	-
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>15</u>
Total	<u><u>15</u></u>

A separate report was not issued for the plan.

The Plan provides separation benefits to law enforcement officers who meet the following:

- 1) Have (i) completed 30 or more years of creditable service or (ii) have attained 55 years of age and completed five or more years of creditable service; and
- 2) Have not attained 62 years of age; and
- 3) Have completed at least five years of continuous service as a law enforcement officer immediately preceding a service retirement.

"Creditable service" is service for which credit is allowed under the retirement system of which the officer is a member, provided at least 50 percent of the service is a law enforcement officer, as defined.

Summary of Significant Accounting Policies

Basis of Accounting. Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

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 as it feels adequate throughout the year. For the current year the Town continues to overfund this obligation and has a net pension asset. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation based on the projected unit credit method. The actuarial assumptions included (a) 5.00% investment rate of return and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include post-employment benefit increases.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Employer annual required contribution	\$ 13,593
Interest on net pension obligation	(1,203)
Adjustment to annual required contribution	<u>1,435</u>
Annual pension cost	13,825
Employer contributions made for fiscal year ended June 30, 2012	<u>-</u>
Increase in net assets	13,825
Net pension assets– beginning of year	<u>(24,053)</u>
Net pension assets – end of year	<u>\$ (10,228)</u>

3 Year Trend Information

Fiscal Year Year Ended	Annual Pension Cost (ARC)	Percentage of APC Contributed	Net Pension Asset End of Year
2010	\$ 8,495	148.15%	\$ (38,944)
2011	\$ 15,940	6.58%	\$ (24,053)
2012	\$ 13,825	0.00%	\$ (10,228)

Funded Status and Funding Progress

As of December 31, 2011, the Town continues to overfund this obligation based on actuarial valuations and has a net pension asset in the amount of \$10,228.

The covered payroll (annual payroll of active employees covered by the plan) was \$545,849 and the ratio of the UAAL to the covered payroll was 13.07 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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 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 an amount each month equal to 5% 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, 2012 were \$32,683 which consisted of \$27,049 from the Town and \$5,634 from the law enforcement officers.

The Town has elected to contribute to the plan for general employees of the Town. Each month, the Town contributes 5% of each employee's salary, and all amounts contributed vest immediately. Employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2012 were \$50,688, which consisted of \$37,852 from the Town and \$12,836 from the general employees.

Note 5 – Other Postemployment Benefits (OPEB)

Healthcare Benefits

Plan Description

The Town administers a single-employer defined healthcare plan ("plan"). The plan provides postemployment healthcare benefits to retirees of the Town, provided that they have retired with unreduced benefits from the North Carolina Local Government Employees' Retirement System. The retiree pays the full cost of coverage for themselves and dependents at the Town's group rates. The Town Council may amend the benefit provisions. A separate report was not issued for the plan.

Funding Policy

The retiree pays the full cost of coverage for the healthcare benefits. The Town has chosen to fund the healthcare benefits on a pay as you go basis. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation

The Town's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC). The Town has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the Town's annual OPEB cost for the current year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the postemployment healthcare benefits:

Employer annual required contribution	\$ 2,950
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	2,950
Contributions made	<u>-</u>
Increase (decrease) in net OPEB obligation	2,950
Net OPEB obligation – beginning of year	<u>10,729</u>
Net OPEB obligation – end of year	<u><u>\$ 13,679</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for June 30, 2012 were as follows:

Trend Information

<u>Fiscal Year Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation End of Year</u>
2012	\$ 2,950	0.00%	\$ 13,679
2011	\$ 4,589	0.00%	\$ 10,729
2010	\$ 6,140	0.00%	\$ 6,140

Funded Status and Funding Progress

As of June 30, 2012, the actuarial accrued liability for benefits was \$13,636 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,370,071 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1.00 percent.

The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future.

Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include the techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

The following simplifying assumptions were made:

Retirement age for active employees- Based on the historical average retirement age for the covered group, active plan members were assigned to retire at age 57, or at the first subsequent year in which the member would qualify for benefits.

Marital status- Marital status of members at the calculation date was assumed to continue throughout retirement.

Mortality- Life expectancies were based on mortality tables from the National Center for Health Statistics. The 2003 United States Life Tables for Males and for Females were used.

Turnover- Non-group-specific age-based turnover data from GASB Statement 45 was used as the basis for assigning active members a probability of remaining employed until the assumed retirement age and for development of an expected future working lifetime assumption for purposes of allocating to periods the present value of total benefits to be paid.

Healthcare cost trend rate- The expected rate of increase in healthcare insurance premiums was based on projections of the Office of the Actuary at the Centers for Medicare & Medicaid Services. A rate of 6.4% initially, increased to an ultimate rate of 7% after nine years, was used.

Health insurance premiums- 2011 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

Inflation rate- The expected long-term inflation assumption of 3.75% was used.

Payroll growth rate- The expected long-term payroll growth rate was assumed to equal the rate of inflation.

Based on the historical and expected returns of the Town's short-term investment portfolio, a discount rate of 4 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2012, was thirty years.

Other Postemployment Benefits

The Town has also 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. All death benefit payments are made from the Death Benefit Plan. 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. The Town considers these contributions to be immaterial.

Note 6 – Accounts Payable and Accrued Liabilities

The balance in accounts payable and accrued liabilities at year-end is composed of the following elements:

	<u>Amount</u>
Accounts payable	\$ 26,284
Employee benefit accruals	<u>42,976</u>
Total	<u>\$ 69,260</u>

Note 7 – Deferred/Unearned Revenues

The balance in deferred/unearned revenues at year-end is composed of the following elements:

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Taxes receivable (General Fund), net	\$ 91,452	\$ -
Prepaid taxes (General Fund)	<u>9,872</u>	<u>9,872</u>
Total	<u>\$ 101,324</u>	<u>\$ 9,872</u>

Note 8 – 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 \$1,000,000 per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

The Town carries commercial coverage for 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 carry flood insurance through the National Flood Insurance Plan on two facilities in Fletcher Community Park. The Town's Community Park is located entirely within the 100 year flood plain; therefore, all improvements to the park are within this flood plain.

From information gathered from Henderson County GIS, the Fletcher Police Department and IT Department appear to be located within the 100 year flood plain. It is also possible that two buildings used by Fletcher Parks & Recreation may also be partially in the 100 year flood plain. As the GIS information is not exact, it would require a survey to determine the exact boundaries of the 100 year flood plain on property owned by the Town. These structures existed prior to the Town's adoption of flood plain regulations.

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 \$50,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$30,000.

The ABC Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The ABC Board has property, general liability, auto liability, workers' compensation, and employee health coverages. The ABC Board also has liquor legal liability coverage. Claims have not exceeded coverage in any of the past three fiscal years.

Note 9 – Long-Term Obligations

A. Installment Purchase Contracts

1) BB&T Loan Modification Agreement

On July 11, 2005, the Town entered into a current refunding by paying off the amount owed to BB&T and borrowed an additional \$500,000 to finance park renovations. The total amount of the original note was \$1,368,034.

BB&T altered the terms of its note with the Town of Fletcher at that time. Under the terms of its loan modification agreement, BB&T increased its existing outstanding note balance with the Town of Fletcher with which the Town paid off its original obligation to BB&T and financed park renovations. BB&T also reduced the annual interest rate applicable to this note from 4.91% to 3.53% per annum.

This modified note requires 31 quarterly principal payments of \$44,130 plus interest at 3.53% beginning in September 2005 and continuing until March 2013.

The future minimum payments of this refinanced agreement as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 132,391	\$ 2,337	\$ 134,728
Totals	\$ 132,391	\$ 2,337	\$ 134,728

2) Brush Truck Installment Purchase Contract

On December 8, 2008, the Town entered into an installment purchase contract in the amount of \$55,162 to purchase a brush truck. The financing contract requires 16 quarterly principal and interest payments of \$3,679 beginning in March, 2009 with an interest rate of 3.1%.

The future minimum payments of this installment purchase as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 7,241	\$ 92	\$ 7,333
Totals	<u>\$ 7,241</u>	<u>\$ 92</u>	<u>\$ 7,333</u>

3) Town Hall Installment Purchase Contract

On May 18, 2012, the Town entered into an installment purchase contract with SunTrust in the amount of \$9,500,000 to finance the construction of a new Town Hall building. There are two financing parts of the installment purchase contract including short-term and long-term financing.

The long term financing is in the amount of \$3,000,000 with the financing contract requiring 30 semi-annual principal payments of \$100,000 plus interest at 3.05% beginning in November 2012 and continuing until May 2027.

The future minimum payments of this installment purchase as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ 200,000	\$ 89,975	\$ 289,975
2014	200,000	83,875	283,875
2015	200,000	77,775	277,775
2016	200,000	71,675	271,675
2017	200,000	65,575	265,575
2018-2022	1,000,000	236,375	1,236,375
2023-2027	<u>1,000,000</u>	<u>83,875</u>	<u>1,083,875</u>
Totals	<u>\$ 3,000,000</u>	<u>\$ 709,125</u>	<u>\$ 3,709,125</u>

The short term financing with SunTrust is in the amount of \$6,500,000 with an interest rate of 1.84%. There are no principal payments, but there are three interest payments in the amount of \$59,800 payable on November 18, 2012, May 18, 2013, and November 18, 2013.

The future minimum payments of this installment purchase as of June 30, 2012, are as follows:

Fiscal Year Ending June 30	Principal	Interest	Total
2013	\$ -	\$ 119,600	\$ 119,600
2014	<u>6,500,000</u>	<u>59,800</u>	<u>6,559,800</u>
Totals	<u>\$ 6,500,000</u>	<u>\$ 179,400</u>	<u>\$ 6,679,400</u>

Once the Town Hall project nears completion in November 2013, the United States Department of Agriculture will provide the long-term financing of \$6,500,000 and will pay off the short-term financing with SunTrust. The Town has been approved for two Community Facilities loans through the United States Department of Agriculture.

B. Changes in Long-term Liabilities

A summary of changes in long-term liabilities follows:

Governmental Activities:	Beginning Balances	Increases	Decreases	Ending Balance	Current Portion of Balance
Installment Purchase Contracts	\$ 330,378	\$ 9,500,000	\$ 190,746	\$ 9,639,632	\$ 339,632
Other Postemployment Benefits	10,729	2,950	-	13,679	-
Compensated Absences	<u>86,493</u>	<u>64,619</u>	<u>69,489</u>	<u>81,623</u>	<u>46,514</u>
Governmental activity long-term liabilities	<u>\$ 427,600</u>	<u>\$ 9,567,569</u>	<u>\$ 260,235</u>	<u>\$ 9,734,934</u>	<u>\$ 386,146</u>

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

Note 10 – Interfund Activity

Transfers to/from other funds at June 30, 2012, consist of the following:

From the Capital Project Fund-Town Hall to General Fund	<u>\$ 70,422</u>
Total	<u>\$ 70,422</u>

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

During the 2012 fiscal year, the Town made a one-time transfer from the Capital Project Fund-Town Hall to the General Fund.

Note 11 – Fund Balance

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

<i>Total fund balance-General Fund</i>	<i>\$ 3,132,502</i>
Less:	
Prepaid Items	26,933
Stabilization by State Statute	507,205
Streets	689,379
Police	13,285
Sidewalk	6,050
Future Park Development	56,363
Subsequent Year's Expenditures	134,436
Board Assigned	17,379
Remaining Fund Balance	<u>1,681,472</u>

Note 12 – Commitments

The Town is obligated under the following commitments as of June 30, 2012:

Cooper Construction Contract	\$7,113,368
Economic Development Incentives	197,242
Henderson County Emergency Services	30,500
Office Equipment	28,800
Monitoring Brownfields	<u>2,170</u>
Total	<u>\$7,372,080</u>

Note 13 – Jointly Governed Organization

The Town, in conjunction with other area counties and municipalities established the Land of Sky Regional Council. The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$1,955 to the Council during the fiscal year ended June 30, 2012.

Note 14 – Summary Disclosure of Significant Contingencies

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 the grant agreement. Such audits could result in the refund of grant moneys to the grantor agencies. Management believes that any required refunds will be immaterial. No provision has been made in the accompanying financial statements for the refund of grant moneys.



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Required Supplementary Financial Data

Town of Fletcher, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Actuarial Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
December 31, 2002	\$ -	\$ 54,977	\$ 54,977	0.00%	\$ 375,324	14.65%
December 31, 2003	-	114,792	114,792	0.00%	365,911	31.37%
December 31, 2004	-	125,087	125,087	0.00%	430,338	29.07%
December 31, 2005	-	86,976	86,976	0.00%	487,024	17.86%
December 31, 2006	-	71,091	71,091	0.00%	508,662	13.98%
December 31, 2007	-	55,566	55,566	0.00%	489,169	11.36%
December 31, 2008	-	59,480	59,480	0.00%	452,137	13.16%
December 31, 2009	-	83,144	83,144	0.00%	563,617	14.75%
December 31, 2010	-	65,660	65,660	0.00%	580,516	11.31%
December 31, 2011	-	71,360	71,360	0.00%	545,849	13.07%

Notes to Required Schedule

The Town of Fletcher is funding the Law Enforcement Officers' Special Separation Allowance based on the actuarial valuation.

The information presented in the required and supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation Date	December 31, 2011
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percent of pay closed
Remaining Amortization Method	19 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return (*)	5.00%
Projected Salary Increases	4.25 - 7.85%
(*) Includes Inflation at	3%
Cost of Living Adjustments	N/A

Town of Fletcher, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2002	\$ 6,449	28.3%
2003	7,381	49.5%
2004	7,686	158.0%
2005	10,177	224.3%
2006	12,976	175.9%
2007	9,817	182.2%
2008	9,069	179.1%
2009	7,786	185.1%
2010	15,802	6.6%
2011	13,593	0.0%

**Town of Fletcher, North Carolina
Other Postemployment Benefits
Required Supplementary Information
Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Accrued Actuarial Projected Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll (b-a)/c
December 31, 2011	\$ -	\$ 13,636	\$ 13,636	0.00%	\$ 1,370,071	1.00%
December 31, 2010	-	18,165	18,165	0.00%	1,223,647	1.48%
December 31, 2009	-	21,427	21,427	0.00%	1,272,230	1.68%

Notes to Required Schedule

The information presented in the required and supplementary schedules was determined as part of the alternate measurement valuation at the dates indicated. Additional information as of the alternate measurement valuation follows:

Valuation Date	December 31, 2011
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level dollar amount
Remaining Amortization Method	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return (*)	4.00%
Projected Salary Increases	3.75%
(*) Includes Inflation at	3.75%
Medical Cost Trend	6.4 to 7%

Town of Fletcher, North Carolina
Other Postemployment Benefits
Required Supplementary Information
Schedule of Employer Contributions

<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2012	\$ 2,950	0.00%
2011	4,589	0.00%
2010	6,140	0.00%



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Individual Fund Financial Statements

Town of Fletcher, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2012

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Ad valorem taxes:			
Current year	\$ 2,981,626	\$ 3,037,997	\$ 56,371
Prior year	15,000	39,809	24,809
Total	<u>2,996,626</u>	<u>3,077,806</u>	<u>81,180</u>
Other taxes and licenses:			
Privilege licenses	20,000	44,416	24,416
Penalties and interest	10,000	14,485	4,485
Total	<u>30,000</u>	<u>58,901</u>	<u>28,901</u>
Unrestricted intergovernmental:			
Local option sales taxes	862,000	1,057,049	195,049
Utility franchise tax	542,100	566,958	24,858
ABC profit distribution	50,000	50,000	-
Video franchise fee	61,500	63,316	1,816
Beer and wine tax	28,000	31,265	3,265
Total	<u>1,543,600</u>	<u>1,768,588</u>	<u>224,988</u>
Restricted intergovernmental:			
Powell Bill allocation	176,800	180,275	3,475
Powell Bill investment earnings	3,200	2,672	(528)
Park development	5,000	470	(4,530)
ABC Funds for law enforcement	1,000	373	(627)
Drug forfeitures	4,000	10,683	6,683
Public safety grants	5,700	5,696	(4)
Solid waste disposal tax	4,700	4,927	227
Total	<u>200,400</u>	<u>205,096</u>	<u>4,696</u>
Permits and fees:			
Land use permits	5,000	5,320	320
Inspection fees	22,000	22,430	430
Total	<u>27,000</u>	<u>27,750</u>	<u>750</u>
Sales and services:			
Recreation department fees	111,000	117,548	6,548
Golf tournament fees	6,000	12,592	6,592
Rents	11,633	8,674	(2,959)
Total	<u>128,633</u>	<u>138,814</u>	<u>10,181</u>
Investment earnings	<u>4,000</u>	<u>3,628</u>	<u>(372)</u>

**Town of Fletcher, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2012**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Miscellaneous:			
Miscellaneous Revenues	\$ 11,000	\$ 11,857	\$ 857
Total revenues	<u>4,941,259</u>	<u>5,292,440</u>	<u>351,181</u>
Expenditures:			
General government:			
Governing body:			
Elected officials	<u>36,428</u>	<u>34,803</u>	<u>1,625</u>
Administration:			
Salaries and employee benefits	345,039	341,031	4,008
Other operating expenditures	256,396	181,392	75,004
Capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>601,435</u>	<u>522,423</u>	<u>79,012</u>
Town facilities:			
Other operating expenditures	<u>127,133</u>	<u>93,665</u>	<u>33,468</u>
Total	<u>127,133</u>	<u>93,665</u>	<u>33,468</u>
Total general government	<u>764,996</u>	<u>650,891</u>	<u>114,105</u>
Public safety:			
Police:			
Salaries and employee benefits	712,299	692,321	19,978
Other operating expenditures	351,255	324,648	26,607
Capital outlay	<u>90,000</u>	<u>89,283</u>	<u>717</u>
Total	<u>1,153,554</u>	<u>1,106,252</u>	<u>47,302</u>
Fire:			
Contracted services	<u>924,793</u>	<u>917,321</u>	<u>7,472</u>
Total public safety	<u>2,078,347</u>	<u>2,023,573</u>	<u>54,774</u>
Economic and physical development:			
Salaries and employee benefits	128,099	120,475	7,624
Other operating expenditures	126,742	116,525	10,217
Capital outlay	<u>15,600</u>	<u>-</u>	<u>15,600</u>
Total economic and physical development	<u>270,441</u>	<u>237,000</u>	<u>33,441</u>

Schedule B-1
(continued)

**Town of Fletcher, North Carolina
General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2012**

	Budget	Actual	Variance Positive (Negative)
Transportation:			
Streets:			
Salaries and employee benefits	\$ 294,295	\$ 291,561	\$ 2,734
Powell Bill expenditures	176,800	162,202	14,598
Other operating expenditures	430,431	417,530	12,901
Capital outlay	38,000	35,290	2,710
Total transportation	939,526	906,583	32,943
Cultural and recreation:			
Parks and recreation:			
Salaries and employee benefits	196,622	189,540	7,082
Other operating expenditures	265,112	246,001	19,111
Capital outlay	13,000	9,266	3,734
Total cultural and recreation	474,734	444,807	29,927
Debt service:			
Principal retirement	260,837	190,746	70,091
Interest and other charges	334,851	9,059	325,792
Total debt service	595,688	199,805	395,883
Total expenditures	5,123,732	4,462,659	661,073
Revenues Over (Under) Expenditures	(182,473)	829,781	1,012,254
Other financing sources (uses):			
Sale of capital assets	2,500	6,810	4,310
Transfers from other funds:			
Capital Project Fund	70,422	70,422	-
Fund balance appropriated	109,551	-	(109,551)
Total other financing sources (uses)	182,473	77,232	(105,241)
Net change in fund balance	\$ -	907,013	\$ 907,013
Fund balance, beginning		2,225,489	
Fund balance, ending		\$ 3,132,502	

**Town of Fletcher, North Carolina
Balance Sheet
Major Governmental Fund
For the Year Ended June 30, 2012**

	<u>Town Hall Capital Project Fund</u>
Assets:	
Cash and Cash Equivalents	<u>\$ 7,849,778</u>
Total Assets	<u><u>\$ 7,849,778</u></u>
Liabilities and Fund Balances:	
Liabilities	<u>\$ -</u>
Total Liabilities	<u>-</u>
Fund Balances:	
Restricted- Financing	<u>7,849,778</u>
Total Fund Balances	<u>7,849,778</u>
Total Liabilities and Fund Balances	<u><u>\$ 7,849,778</u></u>

Town of Fletcher, North Carolina
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
Capital Project- Town Hall Project
From Inception and For the Year Ended June 30, 2012

	Project Budget	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Interest income	\$ 10,000	\$ 32	\$ 624	\$ 656	\$ (9,344)
Total revenues	10,000	32	624	656	(9,344)
Expenditures:					
Construction	7,113,768	-	-	-	7,113,768
Land acquisition	1,500,000	31,000	1,469,000	1,500,000	-
Engineering-architect services	584,442	339,319	65,895	405,214	179,228
Administrative and legal	46,000	-	45,529	45,529	471
Equipment and furnishings	210,000	-	-	-	210,000
Contingency	355,688	-	-	-	355,688
Total expenditures	9,809,898	370,319	1,580,424	1,950,743	7,859,155
Revenues over (under) expenditures	(9,799,898)	(370,287)	(1,579,800)	(1,950,087)	7,849,811
Other Financing Sources (Uses):					
Installment financing	9,500,000	-	9,500,000	9,500,000	-
Transfers (to) from other funds:					
General Fund	(70,422)	-	(70,422)	(70,422)	-
Capital Reserve	99,350	99,318	-	99,318	(32)
General Fund	270,970	270,969	-	270,969	(1)
Total other financing sources (uses)	9,799,898	370,287	9,429,578	9,799,865	(33)
Net change in fund balance	\$ -	-	7,849,778	7,849,778	\$ 7,849,778
Fund balance, beginning		-	-	-	
Fund balance, ending		\$ -	\$ 7,849,778	\$ 7,849,778	

Other Schedules

Schedule C-1

**Town of Fletcher, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2012**

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2011</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2012</u>
2011-2012	\$ -	\$ 3,067,719	\$ 3,022,696	\$ 45,023
2010-2011	60,071	-	44,282	15,789
2009-2010	19,295	-	7,604	11,691
2008-2009	8,036	-	1,083	6,953
2007-2008	6,459	-	1,446	5,013
2006-2007	3,556	-	676	2,880
2005-2006	2,982	-	526	2,456
2004-2005	2,173	-	430	1,743
2003-2004	2,654	-	258	2,396
2002-2003	3,219	-	711	2,508
2001-2002	1,832	-	1,832	-
	<u>\$ 110,277</u>	<u>\$ 3,067,719</u>	<u>\$ 3,081,544</u>	96,452
				Less: allowance for uncollectible ad valorem taxes
				<u>5,000</u>
				Ad valorem taxes receivable - net
				<u>\$ 91,452</u>
 Reconciliation with revenues:				
				Ad valorem taxes - General Fund
				\$ 3,077,806
				Reconciling items:
				Prior year releases
				2,049
				Taxes written off
				<u>1,689</u>
				Total collections and credits
				<u>\$ 3,081,544</u>

Town of Fletcher, North Carolina
Analysis of Current Tax Levy - Town-Wide Levy
For the Year Ended June 30, 2012

	<u>Town-Wide</u>			<u>Total Levy</u>	
	<u>Total Property Valuation</u>	<u>Tax Rate</u>	<u>Levy Amount</u>	<u>Property Excluding Registered Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy	\$ 938,137,231	0.00325	\$3,048,946	\$2,853,573	\$ 195,373
Discoveries	7,239,385		23,528	23,528	-
Releases	<u>(1,463,077)</u>		<u>(4,755)</u>	<u>(1,216)</u>	<u>(3,539)</u>
Adjusted Levy	<u>\$ 943,913,538</u>				
Net levy			3,067,719	2,875,885	191,834
Less: uncollected taxes at June 30, 2012			<u>(45,023)</u>	<u>(25,661)</u>	<u>(19,362)</u>
Current year's taxes collected			<u>\$3,022,696</u>	<u>\$2,850,224</u>	<u>\$ 172,472</u>
Current levy collection percentage			<u>98.53%</u>	<u>99.11%</u>	<u>89.91%</u>



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COMPLIANCE SECTION



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Certified Public Accountants

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**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 Fletcher, North Carolina

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Town of Fletcher, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town of Fletcher, North Carolina's basic financial statements and have issued our report thereon dated October 19, 2012. 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. Other auditors audited the financial statements of Town of Fletcher ABC Board, as described in our report on Town of Fletcher, North Carolina's financial statements. The financial statements of Town of Fletcher ABC Board were not audited in accordance with Government Audited Standards.

Internal Control Over Financial Reporting

Management of Town of Fletcher, North Carolina, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Town of Fletcher, North Carolina's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Town of Fletcher, North Carolina's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Town of Fletcher, North Carolina's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Town of Fletcher, North Carolina'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.

This report is intended solely for the information and use of management, Town Council, others within the entity, and federal and State awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Lowdermilk Church & Co.

October 19, 2012

