

# FINANCIAL REPORT

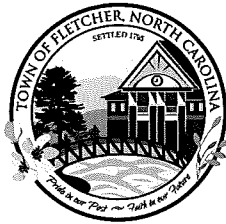
FOR THE YEAR ENDED JUNE 30, 2014



# ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2014

*"PRIDE IN OUR PAST, FAITH IN OUR FUTURE"*



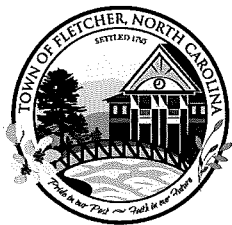
Town Council Members

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, 2014**

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## **Financial Section**

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

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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 and the Citizens  
Town of Fletcher, North Carolina

**Report on the Financial Statements**

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 Town of Fletcher, North Carolina, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the Towns's basic financial statements as listed in the table of contents.

**Management's Responsibility for the Financial Statements**

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

**Auditors' Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of Town of Fletcher ABC Board, which represent 6.2 percent, 8.0 percent, and 24.2 percent, respectively, of the assets, net position, and revenues of the Town of Fletcher, North Carolina. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Town of Fletcher ABC Board is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

## **Opinions**

In our opinion, based on our audit and the report of 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, 2014, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information and Law Enforcement Officers' Separation Allowance and Other Postemployment Benefits Schedule of Funding Progress and Schedule of Employer Contributions on pages iv through xv, 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.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Fletcher, North Carolina's basic financial statements. The individual fund financial statements, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

### **Other Reporting Required by Government Auditing Standards**

In accordance with Government Auditing Standards, we have also issued our report dated September 30, 2014, 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 in considering Town of Fletcher, North Carolina's internal control over financial reporting and compliance.

*Lawrence H. Church & Co.*

Morganton, North Carolina  
September 30, 2014



## 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, 2014. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### Financial Highlights

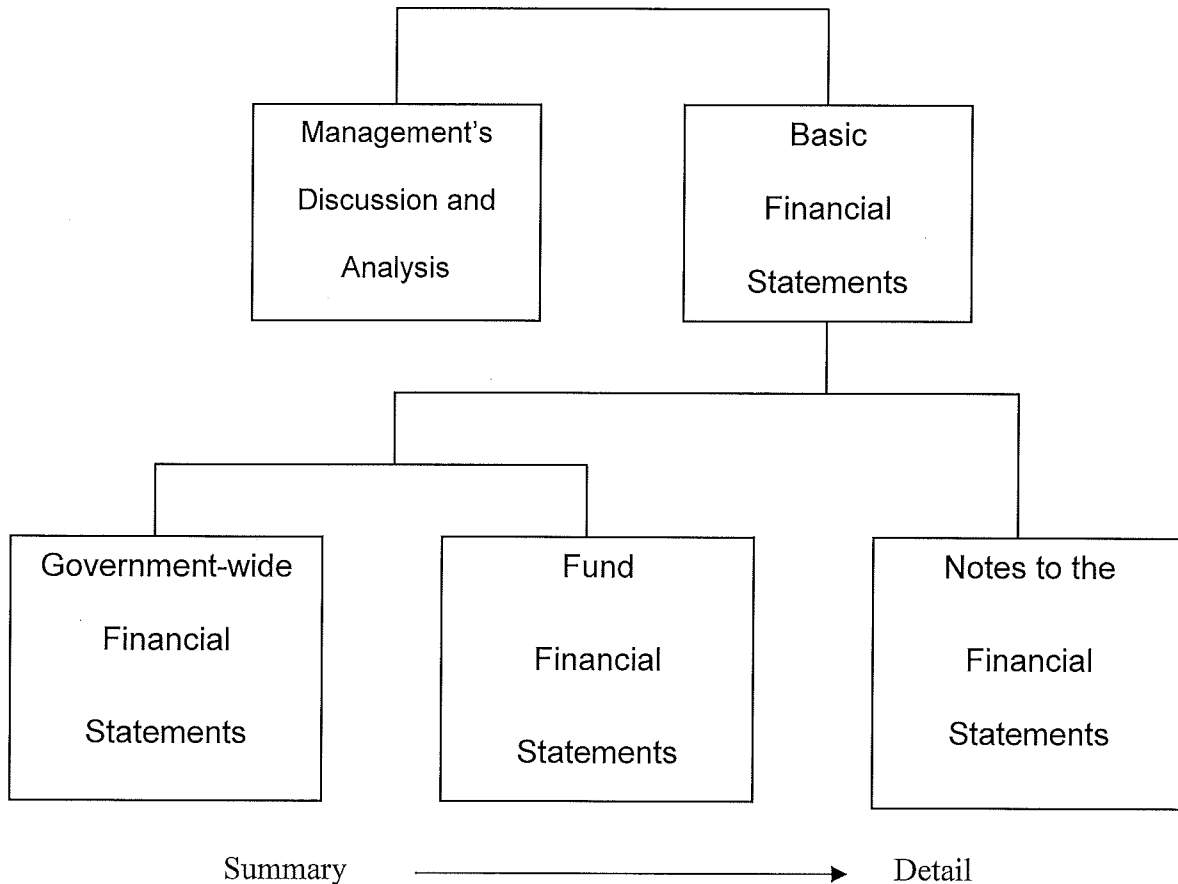
- The assets and deferred outflows of resources of the Town of Fletcher *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$10,770,935 (*net position*).
- The government's total net position *increased* by \$473,764, primarily due to *increases* in the *governmental type* activities net position.
- As of the close of the current fiscal year, the Town's governmental fund reported combined ending fund balances of \$4,625,788, with a net change of (\$3,645,754) in fund balance. Approximately 36.7 percent of this total amount, or \$1,696,661, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$2,542,454, or 47.9 percent of total general fund expenditures for the fiscal year.
- The Town of Fletcher's total debt decreased by \$200,000 (2.2%) during the current fiscal year. The key factor in this decrease was principal payments on debt.

### 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 North Carolina General Statutes also can be found in this part of the statements.

## **Government-wide Financial Statements**

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

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

The government-wide statements are divided into 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 Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

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

### **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.

### **Independence with Other Entities**

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



## Government-Wide Financial Analysis

### Town of Fletcher, Net Position

Figure 2

	Governmental Activities	
	June 30	
	2014	2013
Current and other assets	\$ 5,015,743	\$ 8,740,063
Capital assets	15,342,525	11,369,284
<b>Total assets and deferred outflows of resources</b>	<b>20,358,268</b>	<b>20,109,347</b>
Long-term liabilities outstanding	9,248,406	9,415,944
Other liabilities	338,898	387,451
Deferred inflows of resources	29	8,781
<b>Total liabilities and deferred inflows of resources</b>	<b>9,587,333</b>	<b>9,812,176</b>
Net position:		
Net investment in capital assets	7,159,332	6,364,610
Restricted	1,029,854	1,282,456
Unrestricted	2,581,749	2,650,105
<b>Total net position</b>	<b>\$ 10,770,935</b>	<b>\$ 10,297,171</b>

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town exceeded liabilities and deferred inflows by \$10,770,935 as of June 30, 2014. The Town's net position *increased* by \$473,764 for the fiscal year ended June 30, 2014.

However, the largest portion (66.5%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery and equipment). The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's net investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities.

An additional portion of the Town's net position, \$1,029,854 represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,581,749 is unrestricted.

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

- Increased sales tax revenues of approximately \$69,000 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 98.88% which is comparable to the statewide average of 97.42%

**Town of Fletcher's Change in Net Position**  
**Figure 3**

	<b>Governmental</b>	
	<b>Activities</b>	
	<b>Years Ended June 30</b>	
	<b>2014</b>	<b>2013</b>
<b>Revenues</b>		
Program revenues:		
Charges for service	\$ 151,910	\$ 144,051
Operating grants and contributions	246,320	207,242
Capital grants and contributions	-	-
General revenues:		
Property taxes	3,327,444	3,155,384
Other taxes	1,288,470	1,228,141
Grants and contributions not restricted to specific programs	647,370	646,991
Other	34,413	32,127
Total revenues	<u>5,695,927</u>	<u>5,413,936</u>
<b>Expenses</b>		
General government	782,382	636,418
Public safety	2,233,022	2,133,284
Transportation	1,292,381	986,566
Economic and physical development	229,354	251,857
Cultural and recreation	474,524	474,672
Interest on long term debt	210,500	211,205
Total expenses	<u>5,222,163</u>	<u>4,694,002</u>
Increase in net position	473,764	719,934
Net position, July 1	<u>10,297,171</u>	<u>9,577,237</u>
Net position, June 30	<u>\$ 10,770,935</u>	<u>\$ 10,297,171</u>

**Governmental Activities** – Governmental activities increased the Town’s net position by \$473,764.

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 (7.5 percent).

### **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.

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 \$3,484,156 while total fund balance reached \$3,958,981. The Town currently has an available fund balance of 65.4% of general fund expenditures, while total fund balance represents 74.3% of the same amount.

At June 30, 2014, the governmental funds of the Town of Fletcher reported a fund balance of \$4,625,788 with a net decrease in fund balance of \$3,645,754. Included in this change in fund balance is an increase in the General Fund and a decrease in the Town Hall Capital Project Fund.

**General Fund Budgetary Highlights** – During the fiscal year, the Town revised the budget on seven 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 increase appropriations in Parks and Recreation Capital Outlay to purchase soccer goals for Fletcher Community Park due to a donation.
- An amendment was made to increase appropriations in Parks and Recreation Capital Outlay to install a Video Camera Surveillance System at Fletcher Community Park due to security concerns.
- An amendment was made to account for a grant award to conduct a Downtown Corridor Study.
- An amendment was made to fund expenditures to account for an underpayment to Fletcher Fire and Rescue.

- An amendment was made to increase appropriations in Powell Bill to resurface five Town streets.
- An amendment was made to increase appropriations for Motor Vehicle Collection expense due to the new Tag and Tax system.
- An amendment was made to increase appropriations in our interest payments due to an extension on a short-term loan with SunTrust.

### **Capital Asset and Debt Administration**

**Capital Assets** – The Town’s investment in capital assets for its governmental activities as of June 30, 2014 and 2013, totaled \$15,342,525 and \$11,369,284, 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 \$91,268.
- Acquisition of computer software of \$11,750.
- Acquisition and installation of a video camera surveillance system of \$29,651.
- Construction in progress for Town Hall capital assets of \$4,035,476.

Capital asset disposals for the year ended June 30, 2014 included vehicles and equipment totaling \$64,669.

**Town of Fletcher's Capital Assets**  
**Figure 4**

	<b>Governmental Activities</b>	
	<b>June 30</b>	
	<b>2014</b>	<b>2013</b>
Land	\$ 2,586,847	\$ 2,586,847
Construction in progress	9,137,250	5,101,774
Land improvements	2,571,252	2,589,587
Buildings and improvements	661,464	691,968
Equipment and furniture	140,009	147,432
Vehicles	245,703	251,676
	<u>245,703</u>	<u>251,676</u>
Total	<u><u>\$ 15,342,525</u></u>	<u><u>\$ 11,369,284</u></u>

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

**Long-term Debt** – As of June 30, 2014, the Town’s long-term debt consisted of installment purchase contracts.

**Town of Fletcher's Outstanding Debt**  
**Figure 5**

	<b>Governmental Activities</b>	
	<b>June 30</b>	
	<b>2014</b>	<b>2013</b>
Installment purchase contracts	\$ 9,100,000	\$ 9,300,000

**Town of Fletcher’s Outstanding Debt**

The Town’s total debt decreased by \$200,000 (2.2%) during the fiscal year, primarily due to principal payments.

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 \$82,238,154.

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, 2015.

- Economic growth should continue at a moderate level for the coming year. Estimates for growth in the national economy range from 2% to 3%. The economic outlook for the State is generally positive for the year ahead as well.
- Business spending and consumer spending is expected to continue to trend upward. The Town will increase the amount budgeted for sales tax revenue from \$1,088,000 to \$1,200,000.
- Commercial/Industrial growth in Fletcher continues to be strong. Continental Teves completed an expansion this past year. Cane Creek Cycling Components is in the process of approving a proposed expansion. A new concrete plant was completed on Mills Gap Road.

- A second phase of the Mission-Pardee medical campus will include a YMCA facility that is expected to be complete by the fall of 2014.
- Residential construction activity on the single family development side remains slow. However, interest in multi-family housing development is starting to pick up (mostly apartment projects).
- An increase in the overall budget for Fletcher is primarily supported by revenue from growth in retail sales.
- The Town Hall project will be complete this year and the use of the new, larger facility may create some unforeseen operational costs. This will be more accurately budgeted for in the following fiscal year.

### **Budget Highlights for the Fiscal Year Ending June 30, 2015**

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

- Maintain existing service levels with some increases in personnel expense and revenues.
- Plan for disposition of the former Town Hall facility.
- Further development for the Heart of Fletcher property.

### **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, 300 Old Cane Creek Road, Fletcher, North Carolina 28732. You can also call (828) 687-3985, visit our website [www.fletchernc.org](http://www.fletchernc.org) or send an email to [h.taylor@fletchernc.org](mailto:h.taylor@fletchernc.org) for more information.



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## **Basic Financial Statements**

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**Town of Fletcher, North Carolina**  
**Statement of Net Position**  
**June 30, 2014**

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Town of Fletcher ABC Board</u>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 2,745,448	\$ 167,267
Taxes receivable (net)	73,634	-
Accounts receivable	698,889	-
Inventories	-	167,223
Prepaid items	25,936	12,866
Restricted cash and cash equivalents	<u>1,471,836</u>	<u>-</u>
Total current assets	<u>5,015,743</u>	<u>347,356</u>
Non-current assets:		
Capital assets (Note 3):		
Land, non-depreciable improvements, and construction in progress	11,724,097	241,372
Other capital assets, net of depreciation	<u>3,618,428</u>	<u>766,380</u>
Total capital assets	<u>15,342,525</u>	<u>1,007,752</u>
Total assets	<u>20,358,268</u>	<u>1,355,108</u>

**Exhibit 1**

	<u>Primary Government</u>	<u>Component Unit</u>
	<u>Governmental Activities</u>	<u>Town of Fletcher ABC Board</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 316,292	\$ 101,438
Accrued interest payable	21,963	-
Due to other government	643	-
Current portion of long-term liabilities	317,464	69,614
Total current liabilities	<u>656,362</u>	<u>171,052</u>
Long-term liabilities:		
Due in more than one year	<u>8,930,942</u>	<u>247,148</u>
Total liabilities	<u>9,587,304</u>	<u>418,200</u>
<b>Deferred Inflows of Resources</b>		
Prepaid taxes	<u>29</u>	<u>-</u>
Total deferred inflows of resources	<u>29</u>	<u>-</u>
<b>Net Position</b>		
Net investment in capital assets	7,159,332	690,990
Restricted for:		
Prepaid items	25,936	-
Stabilization by State Statue	448,889	-
Streets	544,959	-
Police	10,070	-
Working Capital	-	51,562
Unrestricted	<u>2,581,749</u>	<u>194,356</u>
Total net position	<u>\$ 10,770,935</u>	<u>\$ 936,908</u>

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, 2014**

		Program Revenues		
Functions/Programs	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 782,382	\$ 10,395	\$ -	\$ -
Public safety	2,233,022	35,055	7,653	-
Transportation	1,292,381	-	213,993	-
Economic and physical development	229,354	-	-	-
Cultural and recreation	474,524	106,460	24,674	-
Interest on long-term debt	210,500	-	-	-
Total governmental activities	\$ 5,222,163	\$ 151,910	\$ 246,320	\$ -
Component Unit:				
ABC Board	\$ 1,710,267	\$ 1,737,800	\$ -	\$ -

**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 position

Net position, beginning

Net position, ending

**Exhibit 2**

<b>Net (Expense) Revenue and Changes in Net Position</b>	
<b>Primary Government</b>	<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Town of Fletcher ABC Board</b>
\$ (771,987)	\$ -
(2,190,314)	-
(1,078,388)	-
(229,354)	-
(343,390)	-
(210,500)	-
(4,823,933)	-
-	27,533
3,327,444	-
1,288,470	-
647,370	-
2,622	149
18,321	-
13,470	82
5,297,697	231
473,764	27,764
10,297,171	909,144
<u>\$ 10,770,935</u>	<u>\$ 936,908</u>

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



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## **Fund Financial Statements**

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**Town of Fletcher, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

	<b>Major Funds</b>		<b>Total</b>
	<b>General Fund</b>	<b>Capital Project</b>	<b>Governmental Funds</b>
<b>Assets:</b>			
Cash and cash equivalents	\$ 2,745,448	\$ -	\$ 2,745,448
Restricted cash	555,029	916,807	1,471,836
Receivables, net:			
Taxes	73,634	-	73,634
Accounts	698,889	-	698,889
Prepaid items	25,936	-	25,936
Total assets	<u>\$ 4,098,936</u>	<u>\$ 916,807</u>	<u>\$ 5,015,743</u>
<b>Liabilities:</b>			
Accounts payable and accrued liabilities	\$ 66,292	\$ 250,000	\$ 316,292
Due to other governments	643	-	643
Total liabilities	<u>66,935</u>	<u>250,000</u>	<u>316,935</u>
<b>Deferred Inflows of Resources:</b>			
Property taxes receivable	72,991	-	72,991
Prepaid taxes	29	-	29
Total deferred inflows of resources	<u>73,020</u>	<u>-</u>	<u>73,020</u>
<b>Fund Balances:</b>			
Nonspendable			
Prepaid items	25,936	-	25,936
Restricted			
Stabilization by State Statute	448,889	-	448,889
Financing	-	666,807	666,807
Streets	544,959	-	544,959
Police	10,070	-	10,070
Committed			
Sidewalk	15,490	-	15,490
Future Park Development	29,476	-	29,476
Capital	267,687	-	267,687
Assigned			
Subsequent year's expenditures	74,020	-	74,020
Unassigned	<u>2,542,454</u>	<u>-</u>	<u>2,542,454</u>
Total fund balances	<u>3,958,981</u>	<u>666,807</u>	<u>4,625,788</u>
Total liabilities, deferred inflows of resources	<u>\$ 4,098,936</u>	<u>\$ 916,807</u>	<u>\$ 5,015,743</u>

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 Position**  
**June 30, 2014**

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

Total Fund Balance, Governmental Fund	\$ 4,625,788
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	15,342,525
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	72,991
Long-term liabilities used in governmental activities are not financial uses and therefore are not reported in the funds.	
Long-term debt	(9,100,000)
Compensated absences	(104,703)
Other postemployment benefits	(23,336)
Net pension obligation	(20,367)
Other long-term liabilities (accrued interest) are not due and payable in the current period and therefore are not reported in the funds.	<u>(21,963)</u>
Net position of governmental activities	<u><u>\$ 10,770,935</u></u>

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, 2014**

	<b>Major Funds</b>		<b>Total</b>
	<b>General Fund</b>	<b>Capital Project</b>	<b>Governmental Funds</b>
<b>REVENUES</b>			
Ad valorem taxes	\$ 3,367,228	\$ -	\$ 3,367,228
Other taxes and licenses	35,736	-	35,736
Unrestricted intergovernmental	1,878,696	-	1,878,696
Restricted intergovernmental	245,243	-	245,243
Permits and fees	39,250	-	39,250
Sales and services	118,233	-	118,233
Investment earnings	2,321	300	2,621
Miscellaneous	13,470	-	13,470
Total revenues	<u>5,700,177</u>	<u>300</u>	<u>5,700,477</u>
<b>EXPENDITURES</b>			
Current:			
General government	737,857	4,035,476	4,773,333
Public safety	2,206,186	-	2,206,186
Transportation	1,251,861	-	1,251,861
Economic and physical development	240,499	-	240,499
Cultural and recreation	480,560	-	480,560
Debt service:			
Principal	200,000	-	200,000
Interest and other charges	212,113	-	212,113
Total expenditures	<u>5,329,076</u>	<u>4,035,476</u>	<u>9,364,552</u>
Excess (deficiency) of revenues over expenditures	<u>371,101</u>	<u>(4,035,176)</u>	<u>(3,664,075)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Sale of capital assets	18,321	-	18,321
Total other financing sources (uses)	<u>18,321</u>	<u>-</u>	<u>18,321</u>
Net change in fund balance	389,422	(4,035,176)	(3,645,754)
Fund balances, beginning	<u>3,569,559</u>	<u>4,701,983</u>	<u>8,271,542</u>
Fund balances, ending	<u>\$ 3,958,981</u>	<u>\$ 666,807</u>	<u>\$ 4,625,788</u>

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

**Exhibit 4**  
**(continued)**

**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, 2014**

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

Net Change in Fund Balances - Total Governmental Funds	\$ (3,645,754)
--------------------------------------------------------	----------------

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	132,669
Capital project expenditures that were capitalized	4,035,476
Depreciation expense for governmental activities	(194,904)
Gain (loss) on sale of capital assets	18,321
Proceeds from sale of capital assets	(18,321)

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

Change in unavailable revenue for tax revenues	(22,873)
------------------------------------------------	----------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long-term debt	200,000
Decrease in accrued interest payable	1,612

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	(6,844)
Other postemployment benefits	(9,221)
Net pension obligation	(16,397)

Total Change in Net Position of Governmental Activities	<u>\$ 473,764</u>
---------------------------------------------------------	-------------------

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, 2014**

	General Fund			Variance with
	Budget		Actual	Final Budget-
	Original	Final	Amounts	Positive
				(Negative)
<b>Revenues:</b>				
Ad valorem taxes	\$ 3,288,162	\$ 3,288,162	\$ 3,367,228	\$ 79,066
Other taxes and licenses	35,000	35,000	35,736	736
Unrestricted intergovernmental	1,808,000	1,808,000	1,878,696	70,696
Restricted intergovernmental	198,881	237,881	245,243	7,362
Permits and fees	35,500	35,500	39,250	3,750
Sales and services	118,600	118,600	118,233	(367)
Investment earnings	2,400	2,400	2,321	(79)
Miscellaneous	11,000	11,000	13,470	2,470
Total revenues	5,497,543	5,536,543	5,700,177	163,634
<b>Expenditures:</b>				
Current:				
General government	778,099	806,699	737,857	68,842
Public safety	2,273,475	2,298,375	2,206,186	92,189
Economic and physical development	268,201	268,201	240,499	27,702
Transportation	1,428,063	1,594,482	1,251,861	342,621
Cultural and recreation	498,424	548,424	480,560	67,864
Debt service:				
Principal	200,000	200,000	200,000	-
Interest and other charges	143,675	212,113	212,113	-
Total expenditures	5,589,937	5,928,294	5,329,076	599,218
Revenues Over (Under) Expenditures	(92,394)	(391,751)	371,101	762,852
<b>Other Financing Sources (Uses):</b>				
Sale of capital assets	7,000	7,000	18,321	11,321
Fund balance appropriated	85,394	384,751	-	(384,751)
Total other financing sources (uses)	92,394	391,751	18,321	(373,430)
Net change in fund balance	\$ -	\$ -	389,422	\$ 389,422
Fund balance, beginning			3,569,559	
Fund balance, ending			\$ 3,958,981	

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, 2014**

**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 position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. 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 is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

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

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

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

#### **D. Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund. All annual appropriations lapse at 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, Deferred Outflows/Inflows of Resources, 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's and the ABC Board's 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. The NCCMT-Term Portfolio's securities are valued at fair value.

### **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 (including restricted assets) with a maturity of three months or less when purchased to be cash and 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 they 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 they can be expended for police equipment expenditures only.

#### **Town of Fletcher Restricted Cash**

##### **Governmental Activities**

##### **General Fund**

Streets	\$ 544,959
Police	10,070

##### **Capital Project Fund**

Unexpended debt proceeds	916,807
Total Restricted Cash	<u><u>\$ 1,471,836</u></u>



### **Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1<sup>st</sup>, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. The taxes are based on the assessed values as of January 1, 2013.

### **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 when consumed rather than when purchased. 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><b>Asset Class</b></u>	<u><b>Estimated Useful Lives (in Years)</b></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><b>Asset Class</b></u>	<u><b>Estimated Useful Lives (in Years)</b></u>
Office/Store Equipment	5 years
Leasehold Improvements	15 years
Buildings	25 years

### **Deferred outflows/inflows of resources**

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town does not have an item that meets this criterion as of June 30, 2014. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has only two items that meet the criterion for this category- prepaid taxes and property taxes receivable.

### **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 statement of net position.

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 of up to thirty days earned vacation leave with such leave being fully vested when earned. 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 Position**

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

## **Fund Balances**

In the governmental fund financial statements, fund balance is composed of 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.

**Committed for Capital-** portion of fund balance that is available for appropriation but has been reserved by the governing body for the purchase of a garbage truck.

**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.

**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. 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 formal policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifies that deposits are properly secured.

At June 30, 2014, the Town's deposits had a carrying amount of \$3,300,177 and a bank balance of \$3,628,678. 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 \$165,117 and a bank balance \$205,789. Federal depository insurance covers \$250,000 of the bank balance. At June 30, 2014, the Town's petty cash fund totaled \$300.

***Investments:***

At June 30, 2014, the Town had \$916,807 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 3 – Receivables- Allowance for Doubtful Accounts**

The amount of taxes receivable presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2014 includes penalties levied and outstanding in the amount of \$643.

The amounts presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2014 are net of the following allowance for doubtful accounts:

**General Fund:**

Taxes Receivable	<u>\$ 5,000</u>
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#### Note 4 – Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2014, was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<b>Governmental Activities:</b>				
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 2,586,847	\$ -	\$ -	\$ 2,586,847
Construction in Progress	5,101,774	4,035,476	-	9,137,250
	<u>7,688,621</u>	<u>4,035,476</u>	<u>-</u>	<u>11,724,097</u>
<b>Capital Assets Being Depreciated:</b>				
Land Improvements	2,741,091	-	-	2,741,091
Buildings and Improvements	1,151,288	-	-	1,151,288
Equipment and Furniture	691,344	41,401	-	732,745
Vehicles	985,607	91,268	64,669	1,012,206
	<u>5,569,330</u>	<u>132,669</u>	<u>64,669</u>	<u>5,637,330</u>
Total Capital Assets Being Depreciated				
	<u>5,569,330</u>	<u>132,669</u>	<u>64,669</u>	<u>5,637,330</u>
<b>Less Accumulated Depreciation For:</b>				
Land Improvements	151,504	18,335	-	169,839
Buildings and Improvements	459,320	30,504	-	489,824
Equipment and Furniture	543,912	48,824	-	592,736
Vehicles	733,931	97,241	64,669	766,503
	<u>1,888,667</u>	<u>\$ 194,904</u>	<u>\$ 64,669</u>	<u>2,018,902</u>
Total Accumulated Depreciation				
	<u>1,888,667</u>	<u>\$ 194,904</u>	<u>\$ 64,669</u>	<u>2,018,902</u>
Total Capital Assets Being Depreciated, Net	<u>3,680,663</u>			<u>3,618,428</u>
Governmental Activities Capital Assets, Net	<u>\$ 11,369,284</u>			<u>\$ 15,342,525</u>

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

General Government	\$ 41,145
Public Safety	94,497
Recreation	22,313
Transportation	<u>36,949</u>
Total Depreciation Expense	<u>\$ 194,904</u>

## Construction Commitments

The government has active construction projects as of June 30, 2014. At year-end, the government's commitments with contractors are as follows:

<b>Project</b>	<b>Spent-to-date</b>	<b>Remaining Commitment</b>
Town Hall	\$ 6,681,944	\$ 370,881
Total	<u>\$ 6,681,944</u>	<u>\$ 370,881</u>

## Discretely Presented Component Unit

Activity for the ABC Board for the year ended June 30, 2014, was as follows:

	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balances</b>
<b>Capital Assets Not Being Depreciated:</b>				
Land	<u>\$ 241,372</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 241,372</u>
<b>Capital Assets Being Depreciated:</b>				
Buildings	970,513	-	-	970,513
Furniture and Equipment	<u>141,885</u>	<u>585</u>	<u>3,955</u>	<u>138,515</u>
Total Capital Assets Being Depreciated	<u>1,112,398</u>	<u>585</u>	<u>3,955</u>	<u>1,109,028</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	220,998	38,820	-	259,818
Furniture and Equipment	<u>78,851</u>	<u>7,934</u>	<u>3,955</u>	<u>82,830</u>
Total Accumulated Depreciation	<u>299,849</u>	<u>\$ 46,754</u>	<u>\$ 3,955</u>	<u>342,648</u>
Total Capital Assets Being Depreciated, Net	<u>812,549</u>			<u>766,380</u>
<b>ABC Board Capital Assets, Net</b>	<u>\$ 1,053,921</u>			<u>\$ 1,007,752</u>

## Note 5 – 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 and for law enforcement officers is 7.28% and 7.07%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 7.07% 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>
2014	\$ 100,743	\$ 6,993
2013	92,946	6,615
2012	97,867	8,196
Total	<u>\$ 291,556</u>	<u>\$ 21,804</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, 2013, 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>16</u>
Total	<u><u>16</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.* The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

*Method Used to Value Investments.* No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

### ***Contributions***

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. 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, 2013 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.

*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	\$ 16,522
Interest on net pension obligation	198
Adjustment to annual required contribution	<u>(323)</u>
Annual pension cost	16,397
Employer contributions made for fiscal year ended June 30, 2014	<u>-</u>
Increase in net pension obligation	16,397
Net pension assets— beginning of year	<u>3,970</u>
Net pension obligation — end of year	<u><u>\$ 20,367</u></u>

### 3 Year Trend Information

<b>Fiscal Year Year Ended</b>	<b>Annual Pension Cost (APC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Obligation End of Year</b>
2012	\$ 13,825	0.00%	\$ (10,228)
2013	\$ 14,198	0.00%	\$ 3,970
2014	\$ 16,397	0.00%	\$ 20,367

### *Funded Status and Funding Progress*

As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$80,340. The covered payroll (annual payroll of active employees covered by the plan) was \$590,311 and the ratio of the UAAL to the covered payroll was 13.61 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, 2014 were \$36,439 which consisted of \$29,027 from the Town and \$7,412 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, 2014 were \$53,052, which consisted of \$41,357 from the Town and \$11,695 from the general employees.

## **Note 6 – 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	\$ 9,221
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	9,221
Contributions made	<u>-</u>
Increase (decrease) in net OPEB obligation	9,221
Net OPEB obligation – beginning of year	<u>14,115</u>
Net OPEB obligation – end of year	<u><u>\$ 23,336</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, 2014 were as follows:

#### Trend Information

<b>Fiscal Year Year Ended</b>	<b>Annual OPEB Cost</b>	<b>Percentage of Annual OPEB Cost Contributed</b>	<b>Net OPEB Obligation End of Year</b>
2014	\$ 9,221	0.00%	\$ 23,336
2013	436	0.00%	14,115
2012	2,950	0.00%	13,679

#### *Funded Status and Funding Progress*

As of June 30, 2014, the actuarial accrued liability for benefits was \$45,653 all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,465,695 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 3.11 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 12 percent initially, reduced to an ultimate rate of 6.00 percent after six years, was used.

*Health insurance premiums-* 2013 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 3.80% was based on projected changes in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) in *The 2013 Annual Report of the Board of Trustees of Federal Old-Age and Survivors and Disability Insurance Trust Funds* for an intermediate growth scenario.

*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, 2014, 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. Because death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

For the fiscal year ended June 30, 2014, the Town made contributions to the State for death benefits of \$0. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

<u>No. Years Contributing</u>	<u>Years Relief</u>	<u>FY Contributions Resume</u>
less than 10	1	2014
10-20	2	2015
20 or more	3	2016

The period of reprieve is determined separately for law enforcement officers. The Town of Fletcher will have a three year reprieve because it has been contributing for more than 20 years. Contributions will resume in fiscal year beginning in July 1, 2015.

## Note 7 – Deferred Inflows of Resources

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

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
Taxes receivable (General Fund), less penalties	\$ 72,991	\$ -
Prepaid taxes (General Fund)	-	29
Total	<u>\$ 72,991</u>	<u>\$ 29</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 two self-funded risk-financing pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insured values of the property policy, workers' compensation coverage up to statutory limits. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Specific information on the limits of the reinsurance purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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

The Town does 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, and workers' compensation. 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) Town Hall Installment Purchase Contract-SunTrust

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 were 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, 2014, are as follows:

<b>Fiscal Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 200,000	\$ 77,775	\$ 277,775
2016	200,000	71,675	271,675
2017	200,000	65,575	265,575
2018	200,000	59,475	259,475
2019	200,000	53,375	253,375
2020-2024	1,000,000	175,375	1,175,375
2025-2027	600,000	32,025	632,025
Totals	<u>\$ 2,600,000</u>	<u>\$ 535,275</u>	<u>\$ 3,135,275</u>

The short term financing with SunTrust was in the amount of \$6,500,000 with an interest rate of 1.84%. On June 12, 2014, the United States Department of Agriculture paid off the short-term financing with SunTrust.

## 2) Town Hall Installment Purchase Contracts-USDA

On June 12, 2014, the Town entered into two installment purchase contracts with the United States Department of Agriculture in the total amount of \$6,500,000 for the new Town Hall building.

The first installment purchase contract is in the amount of \$5,000,000 with the financing contract requiring 40 annual total payments of \$257,350 which includes interest at 4.125% beginning in June 2015 and continuing until June 2054.

The future minimum payments of this installment purchase as of June 30, 2014, are as follows:

<b>Fiscal Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 51,100	\$ 206,250	\$ 257,350
2016	53,208	204,142	257,350
2017	55,403	201,947	257,350
2018	57,688	199,662	257,350
2019	60,068	197,282	257,350
2020-2024	339,614	947,136	1,286,750
2025-2029	415,681	871,069	1,286,750
2030-2034	508,786	777,964	1,286,750
2035-2039	622,745	664,005	1,286,750
2040-2044	762,229	524,521	1,286,750
2045-2049	932,955	353,795	1,286,750
2050-2054	1,140,523	144,829	1,285,352
Totals	<u>\$ 5,000,000</u>	<u>\$ 5,292,602</u>	<u>\$ 10,292,602</u>

The second installment purchase contract is in the amount of \$1,500,000 with the financing contract requiring 40 annual total payments of \$68,895 which includes interest at 3.375% beginning in June 2015 and continuing until June 2054.

The future minimum payments of this installment purchase as of June 30, 2014, are as follows:

<b>Fiscal Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2015	\$ 18,270	\$ 50,625	\$ 68,895
2016	18,887	50,008	68,895
2017	19,524	49,371	68,895
2018	20,183	48,712	68,895
2019	20,864	48,031	68,895
2020-2024	115,371	229,104	344,475
2025-2029	136,199	208,276	344,475
2030-2034	160,787	183,688	344,475
2035-2039	189,814	154,661	344,475
2040-2044	224,082	120,393	344,475
2045-2049	264,535	79,940	344,475
2050-2054	311,484	32,184	343,668
Totals	<u>\$ 1,500,000</u>	<u>\$ 1,254,993</u>	<u>\$ 2,754,993</u>

## B. Changes in Long-term Liabilities

A summary of changes in long-term liabilities follows:

<b>Governmental Activities:</b>	<b>Beginning Balances</b>	<b>Increases</b>	<b>Decreases</b>	<b>Ending Balance</b>	<b>Current Portion of Balance</b>
Installment Purchase Contracts	\$ 9,300,000	\$ -	\$ 200,000	\$ 9,100,000	\$ 269,370
Compensated Absences	97,859	70,755	63,911	104,703	48,094
Other Postemployment Benefits	14,115	9,221	-	23,336	-
Net Pension Obligation	3,970	16,397	-	20,367	-
Governmental activity long-term liabilities	<u>\$ 9,415,944</u>	<u>\$ 96,373</u>	<u>\$ 263,911</u>	<u>\$ 9,248,406</u>	<u>\$ 317,464</u>

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

**Note 10 – Net Investment in Capital Assets**

	Governmental
Capital Assets	\$ 15,342,525
less: long-term debt	9,100,000
add: unexpended debt proceeds	916,807
Net investment in capital asset	<u>\$ 7,159,332</u>

**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:

<b><i>Total fund balance-General Fund</i></b>	<b><i>\$ 3,958,981</i></b>
Less:	
Prepaid Items	25,936
Stabilization by State Statute	448,889
Streets	544,959
Police	10,070
Sidewalk	15,490
Future Park Development	29,476
Capital	267,687
Subsequent Year's Expenditures	74,020
Remaining Fund Balance	<u>2,542,454</u>

**Note 12 – Commitments**

The Town is obligated under the following commitments as of June 30, 2014:

Economic Development Incentives	\$ 1,182,930
Cooper Construction Contract	370,881
Office Equipment	43,462
Henderson County Emergency Services	30,650
Total	<u><u>\$ 1,627,923</u></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 \$3,595 to the Council during the fiscal year ended June 30, 2014.

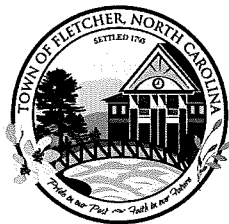
#### **Note 14 – Summary Disclosure of Significant Contingencies**

##### **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.

#### **Note 15 – Significant Effects of Subsequent Events**

Management has evaluated subsequent events through September 30, 2104, the date on which the financial statements were available to be issued. During the period from the end of the year and through this date, no circumstances occurred that require recognition or disclosure in these financial statements.



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## **Required Supplementary Financial Data**

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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, 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%
December 31, 2012	-	88,411	88,411	0.00%	594,216	14.88%
December 31, 2013	-	80,340	80,340	0.00%	590,311	13.61%

**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, 2013
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level dollar closed
Remaining Amortization Method	17 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

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<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2009	\$ 9,069	179.1%
2010	7,786	185.1%
2011	15,802	6.6%
2012	13,593	0.0%
2013	14,072	0.0%
2014	16,522	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, 2013	-	\$ 45,653	\$ 45,653	0.00%	\$ 1,465,695	3.11%
December 31, 2012	-	2,564	2,564	0.00%	1,434,780	0.18%
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%

#### 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, 2013
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	3.80%
(*) Includes Inflation at	3.80%
Medical Cost Trend	12 to 6%

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

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<u>Year Ended June 30</u>	<u>Annual Required Contribution</u>	<u>Percentage Contributed</u>
2014	\$ 9,221	0.00%
2013	436	0.00%
2012	2,950	0.00%
2011	4,589	0.00%



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## **Individual Fund Financial Statements**

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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, 2014

	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>			
Ad valorem taxes:			
Current year	\$ 3,256,662	\$ 3,326,569	\$ 69,907
Prior year	22,000	23,748	1,748
Interest	9,500	16,911	7,411
Total	<u>3,288,162</u>	<u>3,367,228</u>	<u>79,066</u>
Other taxes and licenses:			
Privilege licenses	35,000	35,736	736
Total	<u>35,000</u>	<u>35,736</u>	<u>736</u>
Unrestricted intergovernmental:			
Local option sales taxes	1,088,000	1,169,672	81,672
Utility franchise tax	580,000	564,675	(15,325)
ABC profit distribution	47,000	50,500	3,500
Video franchise fee	62,000	61,654	(346)
Beer and wine tax	31,000	32,195	1,195
Total	<u>1,808,000</u>	<u>1,878,696</u>	<u>70,696</u>
Restricted intergovernmental:			
Powell Bill allocation	184,581	189,420	4,839
Powell Bill investment earnings	1,800	573	(1,227)
Park development	17,000	19,100	2,100
ABC Funds for law enforcement	700	1,594	894
Grant	24,000	24,000	-
Drug forfeitures	5,000	6,059	1,059
Solid waste disposal tax	4,800	4,497	(303)
Total	<u>237,881</u>	<u>245,243</u>	<u>7,362</u>
Permits and fees:			
Land use permits	4,500	4,195	(305)
Inspection fees	31,000	35,055	4,055
Total	<u>35,500</u>	<u>39,250</u>	<u>3,750</u>
Sales and services:			
Recreation department fees	104,000	106,459	2,459
Golf tournament fees	6,000	5,574	(426)
Rents	8,600	6,200	(2,400)
Total	<u>118,600</u>	<u>118,233</u>	<u>(367)</u>
Investment earnings	<u>2,400</u>	<u>2,321</u>	<u>(79)</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, 2014**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Miscellaneous:			
Miscellaneous Revenues	\$ 11,000	\$ 13,470	\$ 2,470
Total revenues	<u>5,536,543</u>	<u>5,700,177</u>	<u>163,634</u>
<b>Expenditures:</b>			
General government:			
Governing body:			
Elected officials	<u>44,220</u>	<u>42,176</u>	<u>2,044</u>
Administration:			
Salaries and employee benefits	364,135	359,615	4,520
Other operating expenditures	<u>266,244</u>	<u>212,307</u>	<u>53,937</u>
Total	<u>630,379</u>	<u>571,922</u>	<u>58,457</u>
Town facilities:			
Other operating expenditures	<u>132,100</u>	<u>123,759</u>	<u>8,341</u>
Total	<u>132,100</u>	<u>123,759</u>	<u>8,341</u>
Total general government	<u>806,699</u>	<u>737,857</u>	<u>68,842</u>
Public safety:			
Police:			
Salaries and employee benefits	792,817	739,822	52,995
Other operating expenditures	361,008	322,068	38,940
Capital outlay	<u>91,521</u>	<u>91,268</u>	<u>253</u>
Total	<u>1,245,346</u>	<u>1,153,158</u>	<u>92,188</u>
Fire:			
Contracted services	<u>1,053,029</u>	<u>1,053,028</u>	<u>1</u>
Total public safety	<u>2,298,375</u>	<u>2,206,186</u>	<u>92,189</u>
Economic and physical development:			
Salaries and employee benefits	132,517	124,563	7,954
Other operating expenditures	110,684	104,186	6,498
Capital outlay	<u>25,000</u>	<u>11,750</u>	<u>13,250</u>
Total economic and physical development	<u>268,201</u>	<u>240,499</u>	<u>27,702</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, 2014

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Transportation:			
Streets:			
Salaries and employee benefits	\$ 345,288	\$ 337,661	\$ 7,627
Powell Bill expenditures	351,000	326,178	24,822
Other operating expenditures	898,194	588,022	310,172
Total transportation	<u>1,594,482</u>	<u>1,251,861</u>	<u>342,621</u>
Cultural and recreation:			
Parks and recreation:			
Salaries and employee benefits	276,987	235,958	41,029
Other operating expenditures	221,437	214,951	6,486
Capital outlay	50,000	29,651	20,349
Total cultural and recreation	<u>548,424</u>	<u>480,560</u>	<u>67,864</u>
Debt service:			
Principal retirement	200,000	200,000	-
Interest and other charges	212,113	212,113	-
Total debt service	<u>412,113</u>	<u>412,113</u>	<u>-</u>
Total expenditures	<u>5,928,294</u>	<u>5,329,076</u>	<u>599,218</u>
Revenues Over (Under) Expenditures	<u>(391,751)</u>	<u>371,101</u>	<u>762,852</u>
Other financing sources (uses):			
Sale of capital assets	7,000	18,321	11,321
Fund balance appropriated	384,751	-	(384,751)
Total other financing sources (uses)	<u>391,751</u>	<u>18,321</u>	<u>(373,430)</u>
Net change in fund balance	<u>\$ -</u>	389,422	<u>\$ 389,422</u>
Fund balance, beginning		<u>3,569,559</u>	
Fund balance, ending		<u>\$ 3,958,981</u>	



**Town of Fletcher, North Carolina**  
**Balance Sheet**  
**Major Governmental Fund**  
**For the Year Ended June 30, 2014**

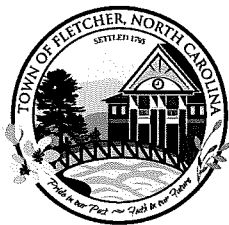
	<b>Town Hall</b> <b>Capital</b> <b>Project Fund</b>
<b>Assets:</b>	
Cash and cash equivalents	\$ 916,807
Total assets	<u>\$ 916,807</u>
<b>Liabilities and Fund Balances:</b>	
Liabilities	
Retainage payable	<u>\$ 250,000</u>
Total liabilities	<u>250,000</u>
<b>Fund Balances:</b>	
Restricted- Financing	<u>666,807</u>
Total fund balances	<u>666,807</u>
Total liabilities and fund balances	<u>\$ 916,807</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, 2014

		Actual			Variance Positive (Negative)
	Project Budget	Prior Years	Current Year	Total to Date	
<b>Revenues:</b>					
Interest income	\$ 10,000	\$ 3,892	\$ 300	\$ 4,192	\$ (5,808)
Total revenues	10,000	3,892	300	4,192	(5,808)
<b>Expenditures:</b>					
Construction	7,013,210	2,933,390	3,838,743	6,772,133	241,077
Land acquisition	1,500,000	1,500,000	-	1,500,000	-
Engineering-architect services	685,000	622,855	54,538	677,393	7,607
Administrative and legal	56,000	45,529	9,493	55,022	978
Equipment and furnishings	200,000	-	132,702	132,702	67,298
Contingency	355,688	-	-	-	355,688
Total expenditures	9,809,898	5,101,774	4,035,476	9,137,250	672,648
Revenues over (under) expenditures	(9,799,898)	(5,097,882)	(4,035,176)	(9,133,058)	666,840
<b>Other Financing Sources (Uses):</b>					
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	9,799,865	-	9,799,865	(33)
Net change in fund balance	\$ -	4,701,983	(4,035,176)	666,807	\$ 666,807
Fund balance, beginning		-	4,701,983	-	
Fund balance, ending		\$ 4,701,983	\$ 666,807	\$ 666,807	

**Town of Fletcher, North Carolina**  
**Fines and Forfeitures Agency Fund**  
**Statement of Changes in Assets and Liabilities**  
**For the Year Ended June 30, 2014**

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deductions</u>	<u>Ending Balance</u>
<b>Assets:</b>				
Cash and cash equivalents	<u>\$ -</u>	<u>\$ 4,214</u>	<u>\$ 4,214</u>	<u>\$ -</u>
<b>Liabilities:</b>				
Intergovernmental payable	<u>\$ -</u>	<u>\$ 4,214</u>	<u>\$ 4,214</u>	<u>\$ -</u>



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## **Other Schedules**

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## Schedule C-1

**Town of Fletcher, North Carolina**  
**Schedule of Ad Valorem Taxes Receivable**  
**June 30, 2014**

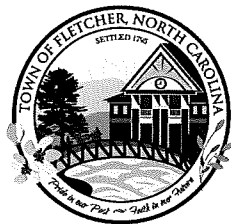
<b>Fiscal Year</b>	<b>Uncollected Balance July 1, 2013</b>	<b>Additions</b>	<b>Collections And Credits</b>	<b>Uncollected Balance June 30, 2014</b>
2013-2014	\$ -	\$ 3,345,722	\$ 3,308,160	\$ 37,562
2012-2013	56,236	-	44,049	12,187
2011-2012	8,514	-	2,136	6,378
2010-2011	8,669	-	3,433	5,236
2009-2010	10,105	-	4,593	5,512
2008-2009	5,934	-	3,265	2,669
2007-2008	3,824	-	340	3,484
2006-2007	2,497	-	163	2,334
2005-2006	2,052	-	163	1,889
2004-2005	1,504	-	121	1,383
2003-2004	1,965	-	1,965	-
	<u>\$ 101,300</u>	<u>\$ 3,345,722</u>	<u>\$ 3,368,388</u>	78,634
Less: allowance for uncollectible ad valorem taxes				<u>5,000</u>
Ad valorem taxes receivable - net				<u>\$ 73,634</u>

**Reconciliation with revenues:**

Ad valorem taxes - General Fund	\$ 3,367,228
Penalties collected on ad valorem taxes- Agency Fund	4,214
Reconciling items:	
Interest collected	(16,911)
Prior year releases	11,987
Taxes written off	<u>1,870</u>
Total collections and credits	<u>\$ 3,368,388</u>

**Town of Fletcher, North Carolina**  
**Analysis of Current Tax Levy - Town-Wide Levy**  
**For the Year Ended June 30, 2014**

	Town-Wide			Total Levy	
	Property Valuation	Tax Rate	Total Levy	Property Excluding Registered Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current	\$ 1,020,912,923	0.00325	\$3,317,967	\$ 3,045,069	\$ 272,898
Penalties	-		4,584	4,584	-
Total	<u>1,020,912,923</u>		<u>3,322,551</u>	<u>3,049,653</u>	<u>272,898</u>
Discoveries:					
Current year taxes	8,594,154	0.00325	27,931	27,909	22
Penalties	<u>-</u>		<u>367</u>	<u>367</u>	<u>-</u>
Abatements:					
Current year taxes	(1,530,154)	0.00325	(4,973)	(2,582)	(2,391)
Penalties	<u>-</u>		<u>(154)</u>	<u>(154)</u>	<u>-</u>
Total property valuation	<u>\$ 1,027,976,923</u>				
Net levy			3,345,722	3,075,193	270,529
Uncollected taxes at June 30, 2014			<u>(37,562)</u>	<u>(28,210)</u>	<u>(9,352)</u>
Current year's taxes collected			<u>\$3,308,160</u>	<u>\$ 3,046,983</u>	<u>\$ 261,177</u>
Current levy collection percentage			<u>98.88%</u>	<u>99.08%</u>	<u>96.54%</u>



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## **Compliance Section**

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**Independent Auditors' Report On Internal Control Over Financial  
Reporting And On Compliance And Other Matters Based On  
An Audit Of Financial Statements Performed In Accordance  
With Government Auditing Standards**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of Town of Fletcher, North Carolina as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise Town of Fletcher, North Carolina's basic financial statements, and have issued our report thereon dated September 30, 2014. Our report includes a reference to other auditors who audited the financial statements of Town of Fletcher Alcoholic Beverage Control Board, as described in our report on Town of Fletcher's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

**Internal Control over Financial Reporting**

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

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

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

### **Compliance and Other Matters**

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

### **Purpose of this Report**

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

*Lawrence Smith Hunt & Co.*

Morganton, North Carolina  
September 30, 2014



