



# FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011



# ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED JUNE 30, 2011

*"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, 2011**

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## FINANCIAL SECTION

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

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Morganton, North Carolina 28655  
Phone: (828) 433-1226  
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**Independent Auditors' Report**

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

We have audited the accompanying financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Fletcher, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Fletcher, North Carolina's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Fletcher ABC Board. Those financial statements were audited by another auditor whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Fletcher ABC Board, is based solely on the report of another auditor.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town of Fletcher ABC Board were not audited in accordance with Government Auditing Standards. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, 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 units, each major fund, and the aggregate remaining fund information of the Town of Fletcher, North Carolina as of June 30, 2011, and the respective changes in financial position, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 24, 2011 on our consideration of the Town of Fletcher, North Carolina's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information and Law Enforcement Officers Special Allowance and Other Postemployment Benefits Schedules of Funding Progress and Schedules of Employer Contributions on pages iii through xiv and 34 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Lowdermilk Church & Co.*

October 24, 2011

## 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, 2011. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### Financial Highlights

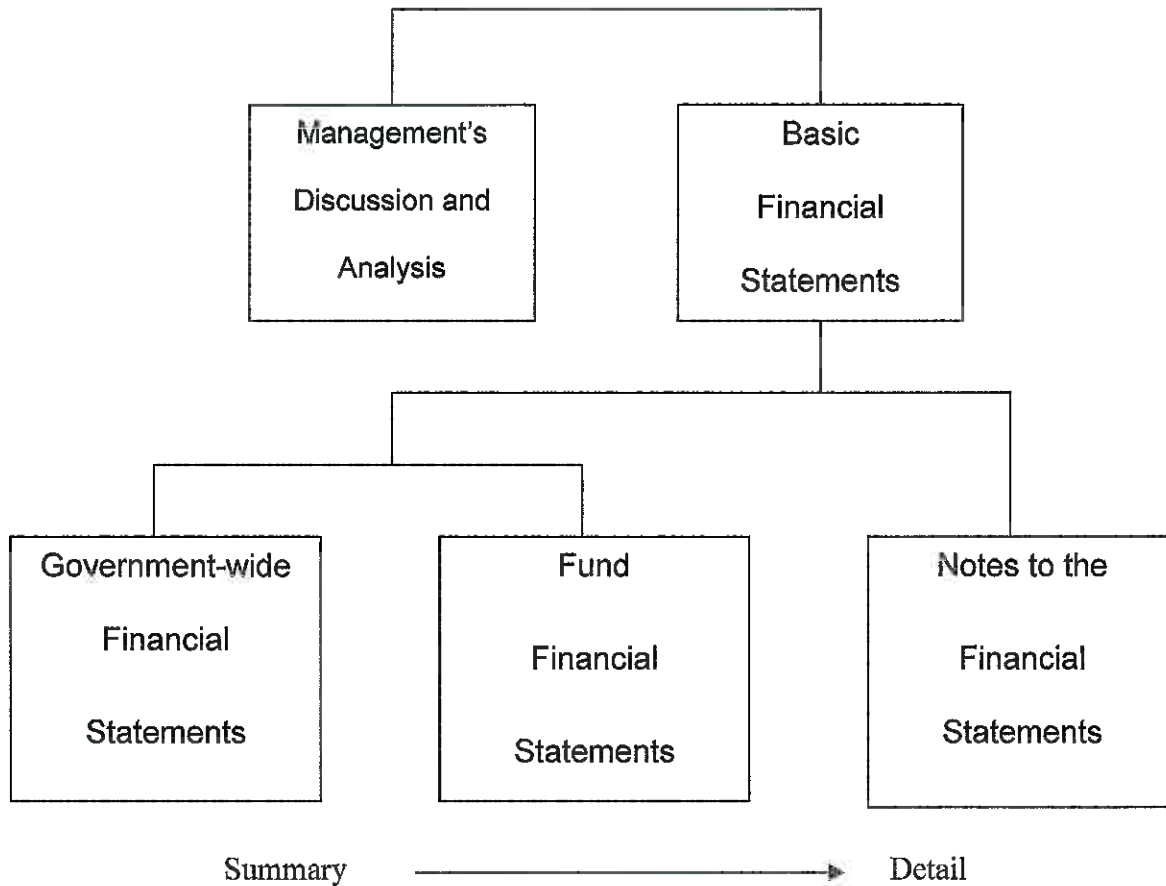
- The assets of the Town of Fletcher *exceeded* its liabilities at the close of the fiscal year by \$8,641,023 (*net assets*).
- The government's total net assets *increased* by \$1,217,289, primarily due to *increases* in the *governmental type* activities net assets.
- As of the close of the current fiscal year, the Town's governmental fund reported combined ending fund balances of \$2,225,489, with a net change of \$407,599 in fund balance. Approximately 54.68 percent of this total amount, or \$1,216,802, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$782,508, or 16.89 percent of total general fund expenditures for the fiscal year.

### Overview of the Financial Statements

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

## Required Components of Annual Financial Report

Figure 1



### Basic Financial Statements

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

The next statements (Exhibits 3 through 5) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town government. These statements provide more detail than the government-wide statements. There are two parts to the Fund Financial Statements: 1) the governmental funds statements; and 2) the budgetary comparison statements.

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



## **Government-wide Financial Statements**

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

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

The government-wide statements are divided into two categories: 1) governmental activities; and 2) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The final category is the component unit. Although legally separate from the Town, the Fletcher ABC Board is important to the Town because the Town exercises control over the Board by appointing its members and because the Board is required to distribute its profits to the Town.

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

## **Fund Financial Statements**

The fund financial statements (see Exhibits 3 through 5) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town are governmental funds.

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

The Town adopts an annual budget for its General Fund and Capital Reserve 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 10-33 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 34 of this report.

## Government-Wide Financial Analysis

### Town of Fletcher, Net Assets

Figure 2

	Governmental Activities	
	June 30	
	2011	2010
Current and other assets	\$ 2,416,050	\$ 2,004,754
Capital assets	6,713,804	6,096,723
<b>Total assets</b>	<b>9,129,854</b>	<b>8,101,477</b>
Long-term liabilities outstanding	427,600	614,780
Other liabilities	61,231	62,963
<b>Total liabilities</b>	<b>488,831</b>	<b>677,743</b>
Net assets:		
Invested in capital assets, net of related debt	6,383,426	5,566,358
Restricted	1,216,802	666,573
Unrestricted	1,040,795	1,190,803
<b>Total net assets</b>	<b>\$ 8,641,023</b>	<b>\$ 7,423,734</b>

As noted earlier, net assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town exceeded liabilities by \$8,641,023 as of June 30, 2011. The Town's net assets *increased* by \$1,217,289 for the fiscal year ended June 30, 2011. However, the largest portion (74%) reflects the Town's investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt still outstanding that was issued to acquire those items. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net assets, \$1,216,802, represents resources that are subject to external restriction on how they may be used. The remaining balance of \$1,040,795 is unrestricted.

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

- The unrestricted net assets were positively influenced due to an increase in property tax revenues due to an increase in the tax rate.
- The Town continued its diligence in the collection of property taxes by attaining a tax collection percentage of 98.08%, which is comparable to the statewide average of 97.42%.



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

	<b>Governmental Activities</b>	
	<b>Years Ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>Revenues</b>		
Program revenues:		
Charges for service	\$ 176,375	\$ 156,670
Operating grants and contributions	210,681	182,909
Capital grants and contributions	239,599	350,331
General revenues:		
Property taxes	3,118,753	2,621,099
Other taxes	986,737	923,824
Grants and contributions not restricted to specific programs	650,401	640,788
Other	16,120	21,051
<b>Total revenues</b>	<b>5,398,666</b>	<b>4,896,672</b>
<b>Expenses</b>		
General government	686,597	838,252
Public safety	1,975,897	1,923,586
Transportation	854,256	901,898
Economic and physical development	229,402	259,358
Cultural and recreation	419,390	431,379
Interest on long term debt	15,835	23,014
<b>Total expenses</b>	<b>4,181,377</b>	<b>4,377,487</b>
<b>Increase in net assets</b>	<b>1,217,289</b>	<b>519,185</b>
<b>Net Assets, July 1,</b>	<b>7,423,734</b>	<b>6,904,549</b>
<b>Net Assets, June 30</b>	<b>\$ 8,641,023</b>	<b>\$ 7,423,734</b>

**Governmental Activities** – Governmental activities increased the Town's net assets by \$1,217,289.

Key elements of this increase are as follows:

- Tax revenues increased.
- Grant revenues in the cultural and recreational area and in the transportation area were used to construct capital assets.
- Recreational programs continued to generate revenues to offset programs and services.
- State sales tax revenue was higher than projected (4.75%)
- Construction in progress began on the new Town Hall project.

### **Financial Analysis of the Town's Funds**

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

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

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, Town of Fletcher's fund balance available in the General Fund was \$1,685,169 while total fund balance reached \$2,225,489. The Town currently has an available fund balance of 36.38% of general fund expenditures, while total fund balance represents 48.05% of the same amount.

At June 30, 2011, the governmental fund of the Town of Fletcher reported a fund balance of \$2,225,489 with a net increase in fund balance of \$407,599. Included in this change in fund balance is an increase in the General Fund and a decrease in the Capital Reserve Fund.

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

- An amendment was made to account for a grant project in the Police Department that was awarded during the fiscal year.
- An amendment was made to the Capital Reserve Fund budget to account for a transfer of reserves to the Town Hall Capital Project Fund.

- An amendment was made to fund expenditures to account for an underpayment to Fletcher Fire and Rescue.
- An amendment was made to account for an increase in revenue for Powell Bill from the North Carolina Department of Transportation.
- An amendment was made to transfer funds from the General Fund to the Town Hall Capital Project fund.

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

**Capital Assets** – The Town's investment in capital assets for its governmental activities as of June 30, 2011 and 2010, totaled \$6,713,804 and \$6,096,723, 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 \$49,636.
- Acquisition of digital in-car cameras for eight police cars or \$49,186.
- Acquisition of an email server of \$18,088.
- Addition of an enclosed break room in the Public Works Building of \$11,194.
- Construction in progress for Town Hall capital assets of \$370,319.
- Additions from construction in progress of two stimulus projects including the Cane Creek Greenway Extension and St. John's Road Sidewalk of \$589,930.

Capital asset disposals for the year ended June 30, 2011 included vehicles and equipment totaling \$39,016.

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

	<b>Governmental Activities</b>	
	<b>June 30</b>	
	<b>2011</b>	<b>2010</b>
Land	\$ 2,586,847	\$ 2,546,961
Construction in progress	370,319	350,331
Land improvements	2,626,256	2,081,018
Buildings and improvements	752,977	772,007
Equipment and furniture	181,099	127,531
Vehicles	196,306	218,875
<b>Total</b>	<b>\$ 6,713,804</b>	<b>\$ 6,096,723</b>

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

**Long-term Debt** – As of June 30, 2011, 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>2011</b>	<b>2010</b>
Installment purchase contracts	<u>\$ 330,387</u>	<u>\$ 530,365</u>

**Town of Fletcher’s Outstanding Debt**

The Town’s total debt decreased by \$199,978 (37.71%) 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 \$78,088,225.

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, 2012.

- Coming out of the recent recession is still a long recovery process, so projections for growth for the coming year are very difficult to predict. Some estimates show growth in the U.S. economy between 2.5%- 3%.
- Revenues for the state are slightly better than projected but still less than they were several years ago.
- Commercial/Industrial growth in Fletcher continues to be better in comparison to residential new construction activity.
- Retail sales are starting to improve slightly across the state. With some moderate growth occurring in the economy, the Town is projecting a 2% increase in sales tax revenues.

- A reduction in the overall budget is still occurring because of a drop in property tax values associated with the recent revaluation conducted by Henderson County.
- Despite a 3% decline in property tax revenues, Council was committed to bringing forth a budget that did not include an offsetting increase to the Town portion of the tax rate. This meant cuts to base budgets to help balance the revenue shortfall.

### **Budget Highlights for the Fiscal Year Ending June 30, 2012**

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

- Start construction on identified Phase 1 improvements for the Heart of Fletcher.
- Maintain existing service levels with moderate budget cuts and some increases in revenue.
- Continue to dedicate 8.5 cents of the tax levy toward CIP projects.
- Explore options for a new developer partner for the Heart of Fletcher.

### **Requests for Information**

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to Heather N. Taylor, Finance Officer, 4005 Hendersonville Road, Fletcher, North Carolina 28732, (828) 687-3985, or [h.taylor@fletchernc.org](mailto:h.taylor@fletchernc.org).

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## **Basic Financial Statements**

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**Town of Fletcher, North Carolina**  
**Statement of Net Assets**  
**June 30, 2011**

	<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	\$ 1,069,918	\$ 161,255
Taxes receivable (net)	105,277	-
Accounts receivable	515,370	-
Inventories	-	188,917
Net pension asset	24,053	-
Prepaid items	24,950	14,250
Restricted cash and cash equivalents	676,482	-
	<u>2,416,050</u>	<u>364,422</u>
Total current assets		
Non-current assets:		
Capital assets (Note 3):		
Land, non-depreciable improvements, and construction in progress	2,957,166	241,372
Other capital assets, net of depreciation	3,756,638	906,914
	<u>6,713,804</u>	<u>1,148,286</u>
Total capital assets		
Total assets	<u>\$ 9,129,854</u>	<u>\$ 1,512,708</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	\$ 53,254	\$ 114,937
Unearned revenue	7,977	-
Current portion of long-term liabilities	240,026	62,844
Long-term liabilities:		
Due in more than one year	<u>187,574</u>	<u>454,340</u>
Total liabilities	<u>488,831</u>	<u>632,121</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	6,383,426	631,102
Restricted for:		
Prepaid items	24,950	-
Stabilization by State Statue	515,370	-
Streets	668,634	-
Police	7,848	-
Law Enforcement	-	-
Alcohol Rehabilitation and Education	-	-
Municipality Profit Distribution	-	28,184
Working Capital	-	55,582
Unrestricted	<u>1,040,795</u>	<u>165,719</u>
Total net assets	<u>\$ 8,641,023</u>	<u>\$ 880,587</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, 2011**

		Program Revenues		
Functions/Programs	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
Primary government:				
Governmental Activities:				
General government	\$ 686,597	\$ 15,755	\$ -	\$ -
Public safety	1,975,897	20,865	42,584	-
Transportation	854,256	-	163,144	234,447
Economic and physical development	229,402	-	-	-
Cultural and recreation	419,390	139,755	4,953	5,152
Interest on long-term debt	15,835	-	-	-
Total governmental activities	\$ 4,181,377	\$ 176,375	\$ 210,681	\$ 239,599
Component Unit:				
ABC Board	\$ 1,881,095	\$ 1,881,130	\$ -	\$ -

**General Revenues:**

Taxes:

Property taxes, levied for general purpose

Other taxes

Grants and contributions not restricted to specific programs

Unrestricted investment earnings

Gain on the sale of capital assets

Miscellaneous

Total general revenues

Change in net assets

Net assets, beginning

Net assets, ending

## Exhibit 2

<b>Net (Expense) Revenue and Changes in Net Assets</b>	
<b>Primary Government</b>	<b>Component Unit</b>
<b>Governmental Activities</b>	<b>Town of Fletcher ABC Board</b>
\$ (670,842)	\$ -
(1,912,448)	-
(456,665)	-
(229,402)	-
(269,530)	-
(15,835)	-
<u>(3,554,722)</u>	<u>-</u>
-	35
3,118,753	-
986,737	-
650,401	-
3,787	413
4,930	-
7,403	-
<u>4,772,011</u>	<u>413</u>
1,217,289	448
<u>7,423,734</u>	<u>880,139</u>
<u>\$ 8,641,023</u>	<u>\$ 880,587</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, 2011**

	<u>Major Fund</u> <u>General</u> <u>Fund</u>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 1,069,918
Restricted cash	676,482
Receivables, net:	
Taxes	105,277
Accounts	515,370
Prepaid items	<u>24,950</u>
 Total assets	 <u><u>\$ 2,391,997</u></u>
<b>LIABILITIES AND FUND BALANCES</b>	
Liabilities:	
Accounts payable and accrued liabilities	\$ 53,254
Deferred revenue	<u>113,254</u>
 Total liabilities	 <u>166,508</u>
Fund balances:	
Nonspendable	
Prepaid items	24,950
Restricted	
Stabilization by State Statute	515,370
Streets	668,634
Police	7,848
Committed	
Sidewalk	3,000
Future Park Development	49,706
Assigned	
Subsequent year's expenditures	146,671
Board assigned	26,802
Unassigned	<u>782,508</u>
 Total fund balances	 <u>2,225,489</u>
 Total liabilities and fund balances	 <u><u>\$ 2,391,997</u></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 Assets**  
**June 30, 2011**

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

Total Fund Balance, Governmental Fund	\$ 2,225,489
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	6,713,804
Liabilities for earned but deferred revenues in fund statements.	
Uncollected property taxes	105,277
Net pension assets are not financial resources and therefore are not reported in the funds	24,053
Other long-term liabilities are not due and payable in the current period and therefore are not reported in the funds.	
Long-term debt	(330,378)
Compensated absences	(86,493)
Other postemployment benefits	(10,729)
Net Assets of Governmental Activities	<u>\$ 8,641,023</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, 2011**

	Major Fund General Fund	Non-Major Fund	Total Governmental Funds
<b>REVENUES</b>			
Ad valorem taxes	\$ 3,098,433	\$ -	\$ 3,098,433
Other taxes and licenses	35,087	-	35,087
Unrestricted intergovernmental	1,597,624	-	1,597,624
Restricted intergovernmental	210,256	239,599	449,855
Permits and fees	24,985	-	24,985
Sales and services	156,243	-	156,243
Investment earnings	3,667	120	3,787
Miscellaneous	7,403	-	7,403
Total revenues	<u>5,133,698</u>	<u>239,719</u>	<u>5,373,417</u>
<b>EXPENDITURES</b>			
Current:			
General government	661,562	370,319	1,031,881
Public safety	1,994,266	-	1,994,266
Transportation	825,788	234,447	1,060,235
Economic and physical development	247,149	-	247,149
Cultural and recreation	416,243	5,152	421,395
Debt service:			
Principal	199,987	-	199,987
Interest and other charges	15,835	-	15,835
Total expenditures	<u>4,360,830</u>	<u>609,918</u>	<u>4,970,748</u>
Excess (deficiency) of revenues over expenditures	<u>772,868</u>	<u>(370,199)</u>	<u>402,669</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers from other funds	-	270,969	270,969
Transfers to other funds	(270,969)	-	(270,969)
Sale of capital assets	4,930	-	4,930
Total other financing sources (uses)	<u>(266,039)</u>	<u>270,969</u>	<u>4,930</u>
Net change in fund balance	506,829	(99,230)	407,599
Fund balances, beginning	<u>1,718,660</u>	<u>99,230</u>	<u>1,817,890</u>
Fund balances, ending	<u>\$ 2,225,489</u>	<u>\$ -</u>	<u>\$ 2,225,489</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, 2011**

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

Net Change in Fund Balances - Total Governmental Funds	\$	407,599
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Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital outlay expenditures that were capitalized		150,637
Capital project expenditures that were capitalized		609,918
Depreciation expense for governmental activities		(144,818)
Capital asset balance adjustment		1,344
Gain (loss) on sale of capital assets		4,930
Proceeds from sale of capital assets		(4,930)

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

Change in deferred revenue for tax revenues		20,320
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net assets.

Principal payments on long-term debt		199,987
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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		(8,218)
Other postemployment benefits		(4,589)
Net pension asset		(14,891)

Total Change in Net Assets of Governmental Activities	\$	<u>1,217,289</u>
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The notes to the financial statements are an integral part of this statement.

**Town of Fletcher, North Carolina**  
**Statement of Revenues, Expenditures, and Change in Fund Balance - Budget and Actual**  
**General Fund**  
**For the Year Ended June 30, 2011**

	General Fund			Variance with Final Budget- Positive (Negative)
	Budget		Actual Amounts	
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 3,052,352	\$ 3,052,352	\$ 3,098,433	\$ 46,081
Other taxes and licenses	24,000	24,000	35,087	11,087
Unrestricted intergovernmental	1,570,500	1,570,500	1,597,624	27,124
Restricted intergovernmental	209,315	252,195	210,256	(41,939)
Permits and fees	28,000	28,000	24,985	(3,015)
Sales and services	125,633	125,633	156,243	30,610
Investment earnings	5,000	5,000	3,667	(1,333)
Miscellaneous	13,000	13,000	7,403	(5,597)
Total revenues	5,027,800	5,070,680	5,133,698	63,018
Expenditures:				
Current:				
General government	943,511	943,511	661,562	281,949
Public safety	2,032,411	2,084,044	1,994,266	89,778
Economic and physical development	279,567	277,417	247,149	30,268
Transportation	846,663	853,093	825,788	27,305
Cultural and recreation	466,466	466,466	416,243	50,223
Debt service:				
Principal	288,884	288,884	199,987	88,897
Interest and other charges	328,687	57,717	15,835	41,882
Total expenditures	5,186,189	4,971,132	4,360,830	610,302
Revenues Over (Under) Expenditures	(158,389)	99,548	772,868	673,320
Other financing sources (uses):				
Transfers to other funds	-	(270,970)	(270,969)	1
Sale of capital assets	2,500	2,500	4,930	2,430
Fund balance appropriated	155,889	168,922	-	(168,922)
Total other financing sources (uses)	158,389	(99,548)	(266,039)	(166,491)
Net change in fund balance	\$ -	\$ -	506,829	\$ 506,829
Fund balance, beginning			1,718,660	
Fund balance, ending			\$ 2,225,489	

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, 2011**

**Note 1 – Summary of Significant Accounting Policies**

The Town of Fletcher, North Carolina (the Town) was incorporated on June 6, 1989. The accounting policies of the Town and its discretely presented component unit conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

**A. Reporting Entity**

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

**Town of Fletcher ABC Board**

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a Proprietary Fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative office located at 37 Rockwood Road, Fletcher, NC 28732.

**B. Basis of Presentation**

*Government-wide Statements:* The statement of net assets and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. Governmental activities are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

*Fund Financial Statements:* The fund financial statements provide information about the Town's funds. The emphasis of fund financial statements is on its major governmental fund. All remaining governmental funds are aggregated and reported as nonmajor funds.

The Town reports the following major governmental fund:

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

The Town reports the following non-major governmental funds:

**Capital Reserve Fund.** This fund is used to account for the accumulation of resources to be used for the construction of a new municipal center.

**Grant Project Fund~ Cane Creek Greenway Project.** This fund is used to account for a grant project through the American Recovery and Reinvestment Act via North Carolina Department of Transportation to extend the Cane Creek Greenway Trail.

**Grant Project Fund~ St. John's Road Sidewalk Project.** This fund is used to account for a grant project through the American Recovery and Reinvestment Act via North Carolina Department of Transportation to build a sidewalk along St. John's Road.

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

### **C. Measurement Focus and Basis of Accounting**

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

*Government-wide Financial Statements.* The government-wide financial statements are reported using the economic resources measurement focus. The government-wide financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.



Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Henderson County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Fletcher. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Henderson County from March 2010 through February 2011 apply to the fiscal year ended June 30, 2011. Uncollected taxes that were billed during this period are shown as a receivable in these financial statements and are offset by deferred revenues.

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

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

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

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

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Capital Reserve 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 the Grant Project Funds including the Cane Creek Greenway and the St. John's Road Sidewalk projects as well as Capital Project Funds including the Town Hall project.

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

#### **E. Assets, Liabilities and Fund Equity**

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

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

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

#### **Cash and Cash Equivalents**

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. It is the Town's policy to use unrestricted resources first, and then restricted resources as needed. The ABC Board considers all highly liquid investments with a maturity of three months or less to be cash equivalents.

#### **Restricted Assets**

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

#### **Ad Valorem Taxes Receivable**

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 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, 2010.

#### **Allowance for Doubtful Accounts**

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

#### **Inventories and Prepaid Items**

The inventories of the ABC Board are valued at lower of cost (first-in, first-out) or market. The inventories consist of materials and supplies held for resale. The costs of the inventories are recorded as an expense as the inventories are sold. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

## **Capital Assets**

Capital assets are defined by the Town as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives (in Years)</u>
Equipment and Furniture	5 years
Vehicles	5 years
Land Improvements	30 years
Buildings and Improvements	40 years

Capital assets of the ABC Board are recorded at original cost at the time of acquisition. Property, plant, and equipment of the ABC board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives (in Years)</u>
Office/Store Equipment	5 years
Leasehold Improvements	10 years
Buildings	20 years

## **Long-Term Obligations**

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

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

## **Compensated Absences**

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



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

### **Net Assets**

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

### **Fund Balances**

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

The governmental fund types classify fund balances as follows:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **Note 2 – Deposits and Investments**

### ***Deposits:***

All the deposits of the Town and the ABC Board are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's or the ABC Board's agents in these units' names. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer.

Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits.

Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town, the ABC Board or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town or the ABC Board under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town and the ABC Board have no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifies that deposits are properly secured.

At June 30, 2011, the Town's deposits had a carrying amount of \$1,746,080 and a bank balance of \$1,858,590. 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 \$159,101 and a bank balance \$165,623. Federal depository insurance covers \$250,000 of the bank balance. At June 30, 2011, the Town's petty cash fund totaled \$320.

#### **Note 2 – Receivables- Allowance for Doubtful Accounts**

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

##### **General Fund:**

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

Capital asset activity for the Primary Government for the year ended June 30, 2011, 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	\$ 2,546,961	\$ 39,886	\$ -	\$ 2,586,847
Construction in Progress	350,331	370,319	350,331	370,319
	<u>2,897,292</u>	<u>410,205</u>	<u>350,331</u>	<u>2,957,166</u>
<b>Capital Assets Being Depreciated:</b>				
Land Improvements	2,191,047	550,044	-	2,741,091
Buildings and Improvements	1,140,094	11,194	-	1,151,288
Equipment and Furniture	568,658	89,455	-	658,113
Vehicles	856,081	49,988	39,016	867,053
	<u>4,755,880</u>	<u>700,681</u>	<u>39,016</u>	<u>5,417,545</u>
<b>Total Capital Assets Being Depreciated</b>				
<b>Less Accumulated Depreciation For:</b>				
Land Improvements	110,029	4,806	-	114,835
Buildings and Improvements	368,087	30,224	-	398,311
Equipment and Furniture	441,127	35,887	-	477,014
Vehicles	637,206	73,901	40,360	670,747
	<u>1,556,449</u>	<u>\$ 144,818</u>	<u>\$ 40,360</u>	<u>1,660,907</u>
<b>Total Accumulated Depreciation</b>				
<b>Total Capital Assets Being Depreciated, Net</b>	<u>3,199,431</u>			<u>3,756,638</u>
<b>Governmental Activities Capital Assets, Net</b>	<u>\$ 6,096,723</u>			<u>\$ 6,713,804</u>

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

General Government	\$ 33,561
Public Safety	62,687
Recreation	16,851
Transportation	<u>31,719</u>
Total Depreciation Expense	<u>\$ 144,818</u>

Capital Assets of the ABC Board at June 30, 2011, are as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>
<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	955,021	15,493	-	970,514
Furniture and Equipment	<u>138,907</u>	<u>-</u>	<u>84</u>	<u>138,823</u>
Total Capital Assets Being Depreciated	<u>1,093,928</u>	<u>15,493</u>	<u>84</u>	<u>1,109,337</u>
<b>Less Accumulated Depreciation for:</b>				
Buildings	105,053	38,304	-	143,357
Furniture and Equipment	<u>45,088</u>	<u>14,062</u>	<u>84</u>	<u>59,066</u>
Total Accumulated Depreciation	<u>150,141</u>	<u>\$ 52,366</u>	<u>\$ 84</u>	<u>202,423</u>
Total Capital Assets Being Depreciated, Net	<u>943,787</u>			<u>906,914</u>
<b>ABC Board Capital Assets, Net</b>	<u>\$ 1,185,159</u>			<u>\$ 1,148,286</u>

#### **Note 4 – Pension Plan and Postemployment Obligations**

##### **Local Governmental Employees' Retirement System**

*Plan Description.* The Town and the ABC Board contribute to the statewide Local Government Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. The report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute 6% of their annual covered salary. The Town and the ABC Board are required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.94% and 7%, respectively, of annual covered payroll. For the ABC Board, the current rate for employees not engaged in law enforcement is 6.35% 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>
2011	\$ 88,633	\$ 8,570
2010	74,335	6,190
2009	69,336	5,938
Total	<u>\$ 232,304</u>	<u>\$ 20,698</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, 2010, 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.*** Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

### ***Contributions***

The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts as it feels adequate throughout the year. For the current year the Town continues to overfund this obligation and has a net pension asset. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

The annual required contribution for the current year was determined as part of the December 31, 2010 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 4.5% to 12.3% per year. Both (a) and (b) included an inflation component of 3.75%. The assumptions did not include post-employment benefit increases.

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

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

Employer annual required contribution	\$ 15,802
Interest on net pension obligation	(1,947)
Adjustment to annual required contribution	<u>2,085</u>
Annual pension cost	15,940
Employer contributions made for fiscal year ended June 30, 2011	<u>1,049</u>
Increase in net assets	14,891
Net pension assets– beginning of year	<u>(38,944)</u>
Net pension assets – end of year	<u><u>\$ (24,053)</u></u>



### 3 Year Trend Information

<b>Fiscal Year Year Ended</b>	<b>Annual Pension Cost (ARC)</b>	<b>Percentage of APC Contributed</b>	<b>Net Pension Asset End of Year</b>
2009	\$ 7,469	192.97%	\$ (34,854)
2010	\$ 8,495	148.15%	\$ (38,944)
2011	\$ 15,940	6.58%	\$ (24,053)

### *Funded Status and Funding Progress*

As of December 31, 2010, the Town continues to overfund this obligation based on actuarial valuations and has a net pension asset in the amount of \$24,053.

The covered payroll (annual payroll of active employees covered by the plan) was \$580,516, and the ratio of the UAAL to the covered payroll was 11.31 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, 2011 were \$35,395 which consisted of \$26,074 from the Town and \$9,321 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, 2011 were \$55,033, which consisted of \$37,557 from the Town and \$17,476 from the general employees.

## **Note 5 – Other Postemployment Benefits (OPEB)**

### **Healthcare Benefits**

#### ***Plan Description***

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

#### ***Funding Policy***

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

#### ***Annual OPEB Cost and Net OPEB Obligation***

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

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

Employer annual required contribution	\$ 4,589
Interest on net OPEB obligation	-
Adjustment to annual required contribution	<u>-</u>
Annual OPEB cost (expense)	4,589
Contributions made	<u>-</u>
Increase (decrease) in net OPEB obligation	4,589
Net OPEB obligation – beginning of year	<u>6,140</u>
Net OPEB obligation – end of year	<u>\$ 10,729</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, 2011 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>
2011	\$ 4,589	0.00%	\$ 10,729
2010	\$ 6,140	0.00%	\$ 6,140

#### ***Funded Status and Funding Progress***

As of June 30, 2011, the actuarial accrued liability for benefits was \$18,165, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,223,647 and the ratio of the unfunded actuarial accrued liability to the covered payroll was 1.48 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 2005 United States Life Tables for Males and for Females were used.

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

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

*Health insurance premiums-* 2010 health insurance premiums for retirees were used as the basis for calculation of the present value of total benefits to be paid.

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

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

Based on the historical and expected returns of the Town's short-term investment portfolio, a discount rate of 4 percent was used. In addition, a simplified version of the entry age actuarial cost method was used. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at June 30, 2011, was thirty years.

#### **Other Postemployment Benefits**

The Town has also elected to provide death benefits to employees through the Death Benefit Plan for members of the Local Governmental Employees' Retirement System (Death Benefit Plan), a multiple-employer, state-administered, cost-sharing plan funded on a one-year term cost basis. The beneficiaries of those employees who die in active service after one year of contributing membership in the System, or who die within 180 days after retirement or termination of service and have at least one year of contributing membership service in the System at the time of death are eligible for death benefits. Lump sum death benefit payments to beneficiaries are equal to the employee's 12 highest months salary in a row during the 24 months prior to the employee's death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

#### **Note 6 – Accounts Payable and Accrued Liabilities**

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

	<u>Amount</u>
Accounts payable	\$ 20,749
Employee benefit accruals	<u>32,505</u>
Total	<u>\$ 53,254</u>



#### **Note 7 – Deferred/Unearned Revenues**

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

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Taxes receivable (General Fund), net	\$ 105,277	\$ -
Prepaid taxes (General Fund)	<u>7,977</u>	<u>7,977</u>
Total	<u>\$ 113,254</u>	<u>\$ 7,977</u>

#### **Note 8 – Risk Management**

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1,000,000 per occurrence, property coverage up to the total insurance values of the property policy, workers' compensation coverage up to statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability and property in excess of \$500,000 and \$300,000 up to statutory limits for workers' compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values.

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

The Town does carry flood insurance through the National Flood Insurance Plan on two facilities in Fletcher Community Park. The Town's Community Park is located entirely within the 100 year flood plain; therefore, all improvements to the park are within this flood plain. From information gathered from Henderson County GIS, the Fletcher Police Department and IT Department appear to be located within the 100 year flood plain. It is also possible that two buildings used by Fletcher Parks & Recreation may also be partially in the 100 year flood plain. As the GIS information is not exact, it would require a survey to determine the exact boundaries of the 100 year flood plain on property owned by the Town. These structures existed prior to the Town's adoption of flood plain regulations.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer and tax collector are each individually bonded for \$50,000 each. The remaining employees that have access to funds are bonded under a blanket bond for \$30,000.

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

## **Note 9 – Long-Term Obligations**

### **A. Installment Purchase Contracts**

#### **1) BB&T Loan Modification Agreement**

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

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

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

The future minimum payments of this refinanced agreement as of June 30, 2011, are as follows:

<b>Fiscal Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 176,521	\$ 8,568	\$ 185,089
2013	132,389	2,337	134,726
Totals	<u>\$ 308,910</u>	<u>\$ 10,905</u>	<u>\$ 319,815</u>

## 2) Brush Truck Installment Purchase Contract

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

The future minimum payments of this installment purchase as of June 30, 2011, are as follows:

<b>Fiscal Year Ending June 30</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2012	\$ 14,215	\$ 501	\$ 14,716
2013	7,252	92	7,344
Totals	<u>\$ 21,467</u>	<u>\$ 593</u>	<u>\$ 22,060</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	\$ 530,365	\$ -	\$ 199,987	\$ 330,378	\$ 190,735
Other Postemployment Benefits	6,140	4,589	-	10,729	-
Compensated Absences	78,275	55,712	47,494	86,493	49,291
Governmental activity long-term liabilities	<u>\$ 614,780</u>	<u>\$ 60,301</u>	<u>\$ 247,481</u>	<u>\$ 427,600</u>	<u>\$ 240,026</u>

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



#### **Note 10 – Interfund Activity**

Transfers to/from other funds at June 30, 2011, consist of the following:

From the Capital Reserve Fund to the Capital Project Fund-Town Hall	\$ 99,318
From the General Fund to the Capital Project Fund-Town Hall	<u>270,969</u>
Total	<u>\$ 370,287</u>

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

During the 2011 fiscal year, the Town made a one-time transfer from the Capital Reserve Fund to the Capital Project Fund-Town Hall since those reserve funds was restricted for the purpose of building a municipal building. The Town also made a one-time transfer from the General Fund to the Capital Project Fund-Town Hall.

#### **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>\$ 2,225,489</i></b>
Less:	
Prepaid Items	24,950
Stabilization by State Statute	515,370
Streets	668,634
Police	7,848
Sidewalk	3,000
Future Park Development	49,706
Subsequent Year's Expenditures	146,671
Board Assigned	26,802
Remaining Fund Balance	<u>782,508</u>

**Note 12 – Commitments**

The Town is obligated under the following commitments as of June 30, 2011:

Economic Development Incentives	\$1,071,529
Office Equipment	43,200
Monitoring Brownfields	6,375
Option on Land Purchase	12,000
Henderson County Emergency Services	<u>30,050</u>
Total	<u><u>\$1,163,154</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 \$1,955 to the Council during the fiscal year ended June 30, 2011.

**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**

Subsequent events were tested through October 24, 2011. The Town has been notified in late September that the United States Department of Agriculture (USDA) has obligated funds under its Community Facilities Loan Program of \$5,000,000 for the Town Hall Project. The Town plans to move forward with this project in the upcoming fiscal year.

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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, 2001	\$ -	\$ 38,979	\$ 38,979	0.00%	\$ 367,768	10.60%
December 31, 2002	-	54,977	54,977	0.00%	375,324	14.65%
December 31, 2003	-	114,792	114,792	0.00%	365,911	31.37%
December 31, 2004	-	125,087	125,087	0.00%	430,338	29.07%
December 31, 2005	-	86,976	86,976	0.00%	487,024	17.86%
December 31, 2006	-	71,091	71,091	0.00%	508,662	13.98%
December 31, 2007	-	55,566	55,566	0.00%	489,169	11.36%
December 31, 2008	-	59,480	59,480	0.00%	452,137	13.16%
December 31, 2009	-	83,144	83,144	0.00%	563,617	14.75%
December 31, 2010	-	65,660	65,660	0.00%	580,516	11.31%

**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, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level percent of pay closed
Remaining Amortization Method	20 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return (*)	5.00%
Projected Salary Increases	4.5 - 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>
2001	\$ 5,655	0.0%
2002	6,449	28.3%
2003	7,381	49.5%
2004	7,686	158.0%
2005	10,177	224.3%
2006	12,976	175.9%
2007	9,817	182.2%
2008	9,069	179.1%
2009	7,786	185.1%
2010	15,802	6.6%

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

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

**Notes to Required Schedule**

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

Valuation Date	December 31, 2010
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level dollar amount
Remaining Amortization Method	30 years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return (*)	4.00%
Projected Salary Increases	3.75%
(*) Includes Inflation at	3.75%
Medical Cost Trend	6.4 to 7%

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

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

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
Ad valorem taxes:			
Current year	\$ 3,040,352	\$ 3,075,010	\$ 34,658
Prior year	12,000	23,423	11,423
Total	<u>3,052,352</u>	<u>3,098,433</u>	<u>46,081</u>
Other taxes and licenses:			
Privilege licenses	17,000	23,360	6,360
Penalties and interest	7,000	11,727	4,727
Total	<u>24,000</u>	<u>35,087</u>	<u>11,087</u>
Unrestricted intergovernmental:			
Local option sales taxes	845,000	885,165	40,165
Utility franchise tax	536,000	542,616	6,616
ABC profit distribution	100,000	79,000	(21,000)
Video franchise fee	61,500	62,058	558
Beer and wine tax	28,000	28,785	785
Total	<u>1,570,500</u>	<u>1,597,624</u>	<u>27,124</u>
Restricted intergovernmental:			
Powell Bill allocation	159,845	159,966	121
Powell Bill investment earnings	10,000	3,178	(6,822)
Park development	5,000	100	(4,900)
ABC Funds for law enforcement	8,000	1,610	(6,390)
Drug forfeitures	3,200	5,264	2,064
Public safety grants	61,450	35,711	(25,739)
Solid waste disposal tax	4,700	4,427	(273)
Total	<u>252,195</u>	<u>210,256</u>	<u>(41,939)</u>
Permits and fees:			
Land use permits	6,000	4,120	(1,880)
Inspection fees	22,000	20,865	(1,135)
Total	<u>28,000</u>	<u>24,985</u>	<u>(3,015)</u>
Sales and services:			
Recreation department fees	106,000	139,755	33,755
Golf tournament fees	8,000	4,853	(3,147)
Rents	11,633	11,635	2
Total	<u>125,633</u>	<u>156,243</u>	<u>30,610</u>
Investment earnings	<u>5,000</u>	<u>3,667</u>	<u>(1,333)</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, 2011**

	Budget	Actual	Variance Positive (Negative)
Miscellaneous:			
Miscellaneous Revenues	\$ 13,000	\$ 7,403	\$ (5,597)
Total revenues	5,070,680	5,133,698	63,018
<b>Expenditures:</b>			
General government:			
Governing body:			
Elected officials	38,694	33,729	4,965
Administration:			
Salaries and employee benefits	340,773	336,341	4,432
Other operating expenditures	419,349	185,236	234,113
Capital outlay	-	11,194	(11,194)
Total	760,122	532,771	227,351
Town facilities:			
Other operating expenditures	144,695	95,062	49,633
Total	144,695	95,062	49,633
Total general government	943,511	661,562	281,949
Public safety:			
Police:			
Salaries and employee benefits	735,163	665,327	69,836
Other operating expenditures	378,034	309,270	68,764
Capital outlay	50,000	98,822	(48,822)
Total	1,163,197	1,073,419	89,778
Fire:			
Contracted services	920,847	920,847	-
Total public safety	2,084,044	1,994,266	89,778
Economic and physical development:			
Salaries and employee benefits	127,280	119,780	7,500
Other operating expenditures	124,687	109,281	15,406
Capital outlay	25,450	18,088	7,362
Total economic and physical development	277,417	247,149	30,268

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, 2011**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Transportation:			
Streets:			
Salaries and employee benefits	\$ 289,752	\$ 280,491	\$ 9,261
Powell Bill expenditures	159,845	155,754	4,091
Other operating expenditures	394,660	382,443	12,217
Capital outlay	8,836	7,100	1,736
Total transportation	<u>853,093</u>	<u>825,788</u>	<u>27,305</u>
Cultural and recreation:			
Parks and recreation:			
Salaries and employee benefits	193,136	187,107	6,029
Other operating expenditures	261,330	214,055	47,275
Capital outlay	12,000	15,081	(3,081)
Total cultural and recreation	<u>466,466</u>	<u>416,243</u>	<u>50,223</u>
Debt service:			
Principal retirement	288,884	199,987	88,897
Interest and other charges	57,717	15,835	41,882
Total debt service	<u>346,601</u>	<u>215,822</u>	<u>130,779</u>
Total expenditures	<u>4,971,132</u>	<u>4,360,830</u>	<u>610,302</u>
Revenues Over (Under) Expenditures	<u>99,548</u>	<u>772,868</u>	<u>673,320</u>
Other financing sources (uses):			
Sale of capital assets	2,500	4,930	2,430
Transfers to other funds:			
Capital Project Fund	(270,970)	(270,969)	1
Fund balance appropriated	168,922	-	(168,922)
Total other financing sources (uses)	<u>(99,548)</u>	<u>(266,039)</u>	<u>(166,491)</u>
Net change in fund balance	<u>\$ -</u>	506,829	<u>\$ 506,829</u>
Fund balance, beginning		1,718,660	
Fund balance, ending		<u>\$ 2,225,489</u>	

**Town of Fletcher, North Carolina**  
**Combining Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balances**  
**Non-Major Governmental Funds**  
**For the Year Ended June 30, 2011**

	<u>Capital Reserve Fund</u>	<u>Cane Creek Greenway Project Fund</u>	<u>St. John's Road Sidewalk Project Fund</u>	<u>Town Hall Project Fund</u>	<u>Total Non-Major Government</u>
<b>Revenues:</b>					
Restricted intergovernmental	\$ -	\$ 5,152	\$ 234,447	\$ -	\$ 239,599
Investment income	88	-	-	32	120
Total revenues	88	5,152	234,447	32	239,719
<b>Expenditures:</b>					
Construction	-	1,178	211,734	-	212,912
Professional services	-	3,974	22,713	-	26,687
Engineering and architect services	-	-	-	339,319	339,319
Land acquisition	-	-	-	31,000	31,000
Administrative and legal	-	-	-	-	-
Utility relocation	-	-	-	-	-
Total expenditures	-	5,152	234,447	370,319	609,918
Revenues over (under) expenditures	88	-	-	(370,287)	(370,199)
<b>Other financing sources (uses):</b>					
Transfers from other funds:					
General Fund	-	-	-	270,969	270,969
Capital Reserve Fund	-	-	-	99,318	99,318
Transfers to other funds:					
Capital Project Fund	(99,318)	-	-	-	(99,318)
Total other financing sources (uses)	(99,318)	-	-	370,287	270,969
Net change in fund balance	(99,230)	-	-	-	(99,230)
Fund balances, beginning	99,230	-	-	-	99,230
Fund balances, ending	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

**Town of Fletcher, North Carolina**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**Capital Reserve Fund**  
**For the Year Ended June 30, 2011**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
<b>Revenues:</b>			
Interest income	<u>\$ 88</u>	<u>\$ 88</u>	<u>\$ -</u>
Total revenues	<u>88</u>	<u>88</u>	<u>-</u>
<b>Other financing sources (uses):</b>			
Transfers to other funds:			
Capital Projects Fund	<u>(99,318)</u>	<u>(99,318)</u>	<u>-</u>
Total other financing sources (uses)	<u>(99,318)</u>	<u>(99,318)</u>	<u>-</u>
Fund balance appropriated	<u>99,230</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>(99,230)</u>	<u>\$ -</u>
Fund balance, beginning		<u>99,230</u>	
Fund balance, ending		<u>\$ -</u>	



**Town of Fletcher, North Carolina**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**Grant Project Fund - Cane Creek Greenway Project**  
**From Inception and For the Year Ended June 30, 2011**

	<u>Actual</u>				<b>Variance</b>
	<b>Project Budget</b>	<b>Prior Years</b>	<b>Current Year</b>	<b>Total to Date</b>	<b>Positive</b>
					<b>(Negative)</b>
<b>Revenues:</b>					
Restricted intergovernmental	\$ 288,225	\$ 244,691	\$ 5,152	\$ 249,843	\$ (38,382)
Total revenues	<u>288,225</u>	<u>244,691</u>	<u>5,152</u>	<u>249,843</u>	<u>(38,382)</u>
<b>Expenditures:</b>					
Construction	194,000	181,377	1,178	182,555	11,445
Professional services	28,500	23,428	3,974	27,402	1,098
Land acquisition	52,000	39,886		39,886	12,114
Contingency	13,725	-		-	13,725
Total expenditures	<u>288,225</u>	<u>244,691</u>	<u>5,152</u>	<u>249,843</u>	<u>38,382</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$ -</u>
Fund balance, beginning		<u>-</u>	<u>-</u>	<u>-</u>	
Fund balance, ending		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	

**Project complete at June 30, 2011.**

**Town of Fletcher, North Carolina**  
**Schedule of Revenues, Expenditures, and**  
**Changes in Fund Balance - Budget and Actual**  
**Grant Project Fund- St. John's Road Sidewalk Project**  
**From Inception and For the Year Ended June 30, 2011**

		Actual			Variance
	Project Budget	Prior Years	Current Year	Total to Date	Positive (Negative)
<b>Revenues</b>					
Restricted intergovernmental	\$ 390,830	\$ 105,640	\$ 234,447	\$ 340,087	\$ (50,743)
Total revenues	390,830	105,640	234,447	340,087	(50,743)
<b>Expenditures</b>					
Construction	286,000	33,628	211,734	245,362	40,638
Professional services	39,000	16,137	22,713	38,850	150
Utility relocation	57,000	55,875	-	55,875	1,125
Contingency	8,830	-	-	-	8,830
Total expenditures	390,830	105,640	234,447	340,087	50,743
Revenues over (under) expenditures	-	-	-	-	-
Net change in fund balance	\$ -	-	-	-	\$ -
Fund balance, beginning		-	-	-	
Fund balance, ending		\$ -	\$ -	\$ -	

**Project complete at June 30, 2011.**

**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, 2011**

	<u>Project Budget</u>	<u>Actual</u>			<u>Variance Positive (Negative)</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	
<b>Revenues:</b>					
Interest income	\$ -	\$ -	\$ 32	\$ 32	\$ 32
Total revenues	-	-	32	32	32
<b>Expenditures:</b>					
Construction	5,499,000	-	-	-	5,499,000
Land acquisition	1,500,000	-	31,000	31,000	1,469,000
Engineering-architect services	428,000	-	339,319	339,319	88,681
Administrative and legal	35,000	-	-	-	35,000
Contingency	175,000	-	-	-	175,000
Total expenditures	7,637,000	-	370,319	370,319	7,266,681
Revenues over (under) expenditures	(7,637,000)	-	(370,287)	(370,287)	7,266,713
<b>Other financing sources (uses):</b>					
Installment financing	7,266,630	-	-	-	(7,266,630)
Transfers from other funds:					
Capital Reserve	99,400	-	99,318	99,318	(82)
General Fund	270,970	-	270,969	270,969	(1)
Total other financing sources (uses)	7,637,000	-	370,287	370,287	(7,266,713)
Net change in fund balance	<u>\$ -</u>	-	-	-	
Fund balance, beginning		-	-	-	
Fund balance, ending		<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	



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## **Other Schedules**

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## Schedule C-1

Town of Fletcher, North Carolina  
General Fund  
Schedule of Ad Valorem Taxes Receivable  
June 30, 2011

<u>Fiscal Year</u>	<u>Uncollected Balance July 1, 2010</u>	<u>Additions</u>	<u>Collections And Credits</u>	<u>Uncollected Balance June 30, 2011</u>
2010-2011	\$ -	\$ 3,120,889	\$ 3,060,818	\$ 60,071
2009-2010	51,288	-	31,993	19,295
2008-2009	11,141	-	3,105	8,036
2007-2008	7,322	-	863	6,459
2006-2007	3,901	-	345	3,556
2005-2006	3,380	-	398	2,982
2004-2005	2,401	-	228	2,173
2003-2004	3,189	-	535	2,654
2002-2003	3,426	-	207	3,219
2001-2002	1,980	-	148	1,832
2000-2001	1,929	-	1,929	-
	<u>\$ 89,957</u>	<u>\$ 3,120,889</u>	<u>\$ 3,100,569</u>	110,277
Less: allowance for uncollectible ad valorem taxes				<u>5,000</u>
Ad valorem taxes receivable - net				<u>\$ 105,277</u>

**Reconciliation with revenues:**

Ad valorem taxes - General Fund	\$ 3,098,433
Reconciling items:	
Prior year releases	516
Taxes written off	<u>1,620</u>
Total collections and credits	<u>\$ 3,100,569</u>

**Town of Fletcher, North Carolina**  
**Analysis of Current Tax Levy - Town-Wide Levy**  
**For the Year Ended June 30, 2011**

	<u>Town-Wide</u>			<u>Total Levy</u>	
	<u>Total Property Valuation</u>	<u>Tax Rate</u>	<u>Levy Amount</u>	<u>Property Excluding Registered Vehicles</u>	<u>Registered Motor Vehicles</u>
Original Levy	\$ 970,201,563	\$ 0.0032	\$3,104,645	\$2,928,631	\$ 176,014
Discoveries	7,331,875		23,462	23,462	-
Releases	<u>(2,255,625)</u>		<u>(7,218)</u>	<u>(5,358)</u>	<u>(1,860)</u>
Adjusted Levy	<u>\$ 975,277,813</u>				
Net levy			3,120,889	2,946,735	174,154
Less: uncollected taxes at June 30, 2011			<u>(60,071)</u>	<u>(42,513)</u>	<u>(17,558)</u>
Current year's taxes collected			<u>\$3,060,818</u>	<u>\$2,904,222</u>	<u>\$ 156,596</u>
Current levy collection percentage			<u>98.08%</u>	<u>98.56%</u>	<u>89.92%</u>





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

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

We have audited the financial statements of the governmental activities, the aggregate discretely presented component units, each major fund, and the aggregated remaining fund information of Town of Fletcher, North Carolina, as of and for the year ended June 30, 2011, which collectively comprise the Town of Fletcher, North Carolina's basic financial statements and have issued our report thereon dated October 24, 2011. 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.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

### Compliance and Other Matters

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

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

*Lowdermilk Church & Co.*

October 24, 2011



