

TOWN OF FOREST CITY, NORTH CAROLINA

Financial Statements
(With Supplementary Information)

June 30, 2012

TOWN OFFICIALS

MAYOR

Dennis L. Tarlton

COMMISSIONERS

Dee Dee Bright

David Eaker

Steve Holland

Chris Lee

Shawn Moore

OFFICERS

Charles R. Summey, II, City Manager

Scott Webber, Finance Director

Sandra P. Mayse, City Clerk

TOWN OF FOREST CITY, NORTH CAROLINA
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June 30, 2012

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Independent Auditor's Report

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

I have audited the accompanying financial statements of the governmental activities, the business-type activities and each fund of the Town of Forest City, North Carolina, as of and for the year ended June 30, 2012, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Forest City's management. My responsibility is to express opinions on these basic financial statements based on my audit. I did not audit the financial statements of the Town of Forest City ABC Board. Those financial statements were audited by another auditor whose report thereon has been furnished to me, and my opinion, insofar as it relates to the amounts included for the Town of Forest City ABC Board, is based solely on the report of the other auditor.

I conducted this 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 I plan and perform my audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. The financial statements of the Town of Forest City 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. I believe that my audit and the report of the other auditor provide a reasonable basis for my opinions.

In my opinion based on this audit, and the report of the other auditor, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, the discretely presented component unit, and each fund of the Town of Forest City, North Carolina as of June 30, 2012 and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management's Discussion and Analysis and the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I, and the other auditor, have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit this information and express no opinion thereon.

In accordance with *Government Auditing Standards*, I have also issued my report dated October 31, 2012 on my consideration of the Town of Forest City's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of my audit.

My audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the basic financial statements of the Town of Forest City, North Carolina. The individual fund financial statements and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in blue ink, appearing to read "R. Heath", is written in a cursive style.

October 31, 2012

TOWN OF FOREST CITY, NORTH CAROLINA

MANAGEMENT AND DISCUSSION ANALYSIS

Town of Forest City, North Carolina

Management's Discussion and Analysis

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

Financial Highlights

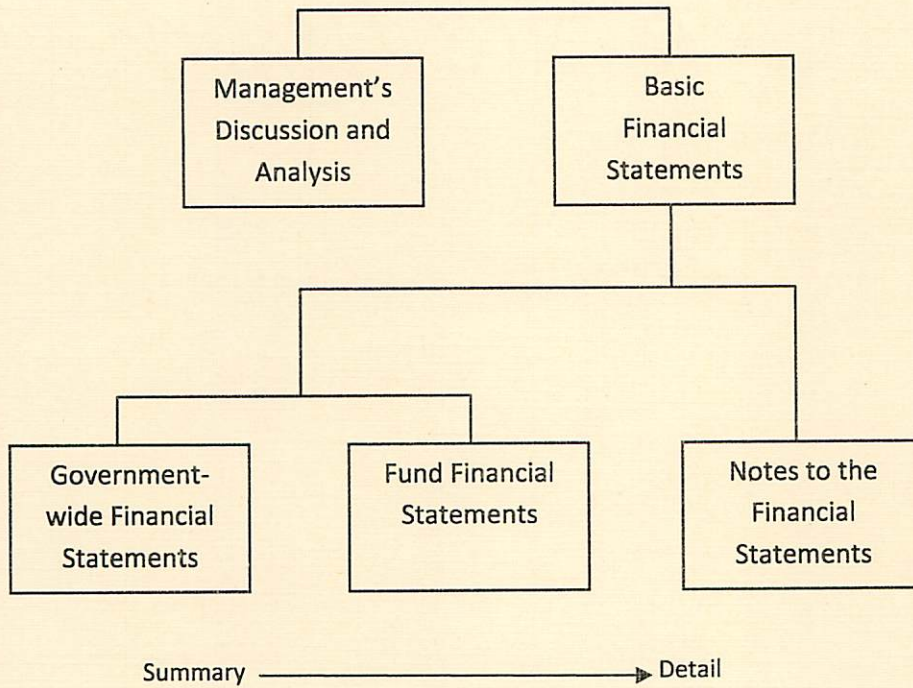
- The assets of the Town of Forest City exceed its liabilities at the close of the fiscal year by \$76,734,505 (*net assets*).
- The government's total net assets decreased by \$721,888.
- As of the close of the current fiscal year, the Town of Forest City's governmental funds reported combined ending fund balances of \$4,365,712 with a net increase of \$49,312 in fund balance. Approximately 25.22 percent of this total amount, or \$1,100,929, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,863,938, or 19.26 percent of the total General Fund expenditures for the year.
- The Town of Forest City has a loan of \$1,777,777 outstanding as of June 30, 2012.

Overview of the Financial Statements

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

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 the short and long-term information about the Town's financial status.

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

The next section of the basic financial statements is the **Notes to the Financial Statements**. These notes explain in detail some of the data contained in the 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 three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes, utility revenue and state grants funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include water and sewer and electric services offered by the Town of Forest City. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town because it exercises control over the Board by appointing its members and the board will distribute its profits to the Town.

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

Fund Financial Statements

The fund financial statements (see Figure 2) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Forest City, like all 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 of Forest City can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can be readily 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 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 governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is described in a reconciliation that is part of the fund financial statements.

Management's Discussion and Analysis

Town of Forest City

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

Proprietary Funds – The Town of Forest City has one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements financial statements. The Town of Forest City uses enterprise funds to account for its water and sewer activity and for its electric operations. These funds are shown as the business-type activities in the Statement of Net Assets and the Statement of Activities.

Notes to the Financial Statements - The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 11-34 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Forest City's progress in funding its obligation to provide pension benefits to its police employees. Required supplementary information can be found on pages 35-36 of this report.

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

Government-Wide Financial Analysis

The government-wide financial statements for years ending June 30, 2011 and June 30, 2012 are in compliance with GASB 34. As appropriate, changes may have been made to prior year amounts to make them comparable to current year amounts. The comparisons between the two years in assets and fund balance are commented on in the Financial Highlights and in Figure 2.

The Town of Forest City's Net Assets
Figure 2

	Government Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Current and other assets	\$ 4,716,238	\$ 4,454,837	\$ 10,112,280	\$ 11,031,992	\$ 14,828,518	\$ 15,486,829
Restricted Assets						
Cash and cash equivalents	253,807	230,543	297,347	289,357	551,154	519,900
Capital assets - net	17,826,927	18,106,212	46,254,145	47,269,060	64,081,072	65,375,272
Other assets						
Due from component unit	161,669	195,825			161,669	195,825
Industrial development loan			950,000		950,000	
Total assets	\$ 22,958,641	\$ 22,987,417	\$ 57,613,772	\$ 58,590,409	\$ 80,572,413	\$ 81,577,826
Long-term liabilities outstanding	\$ 2,051,212	\$ 2,030,344			\$ 2,051,212	\$ 2,030,344
Other liabilities	725,616	701,284	1,061,080	1,389,805	1,786,696	2,091,089
Total liabilities	\$ 2,776,828	\$ 2,731,628	\$ 1,061,080	\$ 1,389,805	\$ 3,837,908	\$ 4,121,433
Net assets:						
Invested in capital assets, net of related debt	\$ 16,049,150	\$ 16,115,568	\$ 46,254,145	\$ 47,269,060	\$ 62,303,295	\$ 63,384,628
Restricted	848,272	995,433			848,272	995,433
Unrestricted	3,284,391	3,144,788	10,298,547	9,931,544	13,582,938	13,076,332
Total net assets	\$ 20,181,813	\$ 20,255,789	\$ 56,552,692	\$ 57,200,604	\$ 76,734,505	\$ 77,456,393

As noted earlier, assets may serve over time as one useful indicator of a government's financial condition. The assets of the Town of Forest City exceeded liabilities by \$76,734,505 as of June 30, 2012. The Town's net assets decreased by \$721,888 for the fiscal year ended June 30, 2012. The Town of Forest City uses its capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Forest City'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 \$848,272 represents resources which are subject to external restrictions as to how they may be used. Of the remaining net assets balance, \$13,582,938 is unrestricted.

Town of Forest City Changes in Net Assets
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program Revenues:						
Charges for Services	\$1,474,615	\$1,403,638	\$16,601,951	\$16,876,198	\$18,076,566	\$18,279,836
Operating Grants and Contributions	739,846	917,913		33,333	739,846	951,246
Capital Grants and Contributions	8,667	8,094	37,179	386,404	45,846	394,498
General Revenue:						
Property Taxes	1,637,227	1,655,209			1,637,227	1,655,209
Other Taxes	552,441	510,109			552,441	510,109
Unrestricted Intergovernmental	843,846	752,645			843,846	752,645
Unrestricted Investment earnings	86,305	89,105	164,941	160,636	251,246	249,741
Gain on Sale or Capital Assets	17,040	637,056			17,040	637,056
Insurance Recovery	135,155				135,155	
Miscellaneous	11,307	69,152			11,307	69,152
Total Revenues	5,506,449	6,042,921	16,804,071	17,456,571	22,310,520	23,499,492
Expenses:						
General Government	1,981,056	1,673,977			1,981,056	1,673,977
Public Safety	3,819,222	3,667,575			3,819,222	3,667,575
Transportation	1,327,834	1,409,679			1,327,834	1,409,679
Environmental Protection	1,045,410	999,214			1,045,410	999,214
Culture and Recreation	1,569,719	1,560,770			1,569,719	1,560,770
Community Development	469,111	881,815			469,111	881,815
Cemetery	5,811	13,305			5,811	13,305
Water and Sewer			4,168,650	4,151,805	4,168,650	4,151,805
Electric			8,645,595	8,724,424	8,645,595	8,724,424
Total Expenses	10,218,163	10,206,335	12,814,245	12,876,229	23,032,408	23,082,564
Total before transfers	(4,711,714)	(4,163,414)	3,989,826	4,580,342	(721,888)	416,928
Transfers	4,637,738	4,500,000	(4,637,738)	(4,500,000)	-	-
Increase (Decrease) in Net Assets	(73,976)	336,586	(647,912)	80,342	(721,888)	416,928
Net Assets July 1	20,255,789	19,919,203	57,200,604	57,120,262	77,456,393	77,039,465
Net Assets June 30	\$20,181,813	\$20,255,789	\$56,552,692	\$57,200,604	\$76,734,505	\$77,456,393

Management's Discussion and Analysis
Town of Forest City

Governmental activities: Governmental activities decreased the Town's net assets by \$73,976, thereby accounting for 10.25% of the total decline in net assets.

Business-type activities: Business-type activities decreased the Town of Forest City's net assets by \$647,912 and accounted for 89.75% of the total decline in net assets.

Financial Analysis of the Town's Funds

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

Governmental Funds – The focus of the Town of Forest City's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town of Forest City'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 of Forest City. At the end of the current fiscal year, the Town of Forest City's fund balance available in the General fund was \$3,264,783, and total fund balance reached \$4,365,712. The Town Council of Forest City has determined that the Town should maintain an available balance of 25% of General Fund expenditures; currently the Town has an available balance of 33.73% of General Fund expenditures.

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

Revenues were \$270,099 more than the budgeted amounts. Expenditures were \$430,224 less than budgeted amounts and the Town was able to comply with its budgetary requirements.

Management's Discussion and Analysis
Town of Forest City

Proprietary Funds – The Town of Forest City's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net assets of the Water and Sewer Fund at the end of the fiscal year amounted to \$6,077,393 and those for the Electric Fund amounted to \$4,221,154. The change in net assets for both funds was (\$450,587) and (\$197,325) respectively. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town of Forest City's business-type activities.

Capital Assets

Capital Assets - The Town of Forest City's investment in capital assets for its governmental and business-type activities as of June 30, 2012 totals \$64,081,072 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment and vehicles.

**Town of Forest City Capital Assets
(Net of depreciation)
Figure 4**

	Governmental Activities	Business-Type Activities	Total
Land	\$ 7,610,675	\$ 293,597	\$ 7,904,272
Plant and Lines		44,110,252	44,110,252
Buildings	7,065,761		7,065,761
Equipment	1,096,367	1,685,641	2,782,008
Infrastructure	859,326		859,326
Vehicles	1,194,798		1,194,798
Construction in process		164,655	164,655
Total	<u>\$ 17,826,927</u>	<u>\$ 46,254,145</u>	<u>\$ 64,081,072</u>

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

Management's Discussion and Analysis
Town of Forest City

Long-term debt outstanding – As of June 30, 2012, the Town of Forest City had no bonded debt outstanding. The Town's debt consisted of an installment loan incurred in constructing the baseball stadium (\$1,777,777) and net pension obligation (\$273,435). During the current fiscal year, long-term debt decreased by \$191,999.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries less debt outstanding. The legal debt margin for Town of Forest City is approximately \$45,000,000.

Budget Highlights for the Fiscal Year Ending June 30, 2013

Governmental Activities - Property taxes are \$.29/100 for fiscal year 2012-2013. The current revenue is adequate to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to increase approximately .65%.

Business-type Activities - The water and sewer revenues in the Town are expected to increase slightly due to increases in commercial sales. Rates for electricity will adjust to allow for changes in the fuel factor, as well as increased capital projects on behalf of our wholesale energy provider.

Request for Information

The Town of Forest City ABC Board issued its separately prepared financial statements. Any questions or requests for additional information pertaining to the ABC Board's financial statements should be directed to Town of Forest City ABC Board, 430 Oak Street, Forest City, North Carolina 28043.

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Director of Finance, The Town of Forest City, 128 N. Powell Street, Forest City, North Carolina 28043. You may also call (828) 248-5204.

TOWN OF FOREST CITY, NORTH CAROLINA

BASIC FINANCIAL STATEMENTS

TOWN OF FOREST CITY, NORTH CAROLINA
Statement of Net Assets
 June 30, 2012

Assets:	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Current assets				
Cash and cash equivalents	\$ 3 745 761	\$ 7 586 618	\$11 332 379	\$456 303
Taxes receivable - net	114 920		114 920	
Accrued interest on taxes receivable	14 300		14 300	
Accounts receivable	155 808	2 464 038	2 619 846	
Other receivables	6 304	3 173	9 477	
Due from other governments	668 225	58 451	726 676	
Inventories	10 920		10 920	143 488
Prepaid items				5 218
Restricted cash/cash equivalents	253 807	297 347	551 154	
	<u>4 970 045</u>	<u>10 409 627</u>	<u>15 379 672</u>	<u>605 009</u>
Capital assets:				
Land, non-depreciable improvements	7 610 675	458 252	8 068 927	50 000
Other-net of depreciation	10 216 252	45 795 893	56 012 145	229 772
	<u>17 826 927</u>	<u>46 254 145</u>	<u>64 081 072</u>	<u>279 772</u>
Other assets:				
Due from component unit	161 669		161 669	
Industrial development loan		950 000	950 000	
	<u>161 669</u>	<u>950 000</u>	<u>1 111 669</u>	<u>-</u>
Total assets	<u>22 958 641</u>	<u>57 613 772</u>	<u>80 572 413</u>	<u>884 781</u>
Liabilities				
Current liabilities:				
Accounts payable	457 685	684 974	1 142 659	238 666
Unearned revenues	23 289		23 289	
Compensated absences	244 642	78 759	323 401	
Current portion - long term debt	166 667		166 667	
Payable from restricted assets:				
Customer deposits		297 347	297 347	
	<u>892 283</u>	<u>1 061 080</u>	<u>1 953 363</u>	<u>238 666</u>
Long-term liabilities				
Due primary government				161 669
Other	1 884 545		1 884 545	
Total liabilities	<u>2 776 828</u>	<u>1 061 080</u>	<u>3 837 908</u>	<u>400 335</u>
Net assets				
Invested in capital assets, net of related debt	16 049 150	46 254 145	62 303 295	117 977
Restricted for:				
Stabilization by State Statute	836 202		836 202	
Other	12 070		12 070	180 276
Unrestricted	3 284 391	10 298 547	13 582 938	186 193
Total net assets	<u>\$20 181 813</u>	<u>\$56 552 692</u>	<u>\$76 734 505</u>	<u>\$484 446</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA
Statement of Activities
For the Year Ended June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities	Total	
Primary Government:								
Governmental activities:								
General government	\$ 1 981 056	\$ 77 204	\$ 4 098	\$	\$(1 899 754)	\$	\$(1 899 754)	\$
Public safety	3 819 222	44 511	28 829	8 667	(3 737 215)		(3 737 215)	
Transportation	1 327 834		244 188		(1 083 646)		(1 083 646)	
Environmental protection	1 045 410	995 453	5 120		(44 837)		(44 837)	
Cultural and recreation	1 569 719	351 347			(1 218 372)		(1 218 372)	
Community Development	469 111		457 611		(11 500)		(11 500)	
Cemetery	5 811	6 100			289		289	
Total governmental activities	<u>10 218 163</u>	<u>1 474 615</u>	<u>739 846</u>	<u>8 667</u>	<u>(7 995 035)</u>	<u>-</u>	<u>(7 995 035)</u>	
Business-type activities:								
Electric	8 645 595	12 029 200				3 383 605	3 383 605	
Water and sewer	<u>4 168 650</u>	<u>4 572 751</u>		<u>37 179</u>		<u>441 280</u>	<u>441 280</u>	
Total business-type activities	<u>12 814 245</u>	<u>16 601 951</u>	<u>-</u>	<u>37 179</u>	<u>-</u>	<u>3 824 885</u>	<u>3 824 885</u>	
Total primary government	<u>\$23 032 408</u>	<u>\$18 076 566</u>	<u>\$739 846</u>	<u>\$ 45 846</u>	<u>(7 995 035)</u>	<u>3 824 885</u>	<u>(4 170 150)</u>	
Component Unit:								
ABC Board	<u>\$ 1 646 338</u>	<u>\$ 1 732 024</u>	<u>\$ -</u>	<u>\$ -</u>				<u>85 686</u>
General revenues:								
Taxes:								
Property taxes					1 637 227		1 637 227	
Other taxes					552 441		552 441	
Unrestricted intergovernmental					843 846		843 846	
Unrestricted investment earnings					86 305	164 941	251 246	
Gain on sale of capital assets					17 040		17 040	2 941
Insurance recovery					135 155		135 155	
Miscellaneous					11 307		11 307	268
Total general revenues not including transfers					<u>3 283 321</u>	<u>164 941</u>	<u>3 448 262</u>	<u>3 209</u>
Transfers					<u>4 637 738</u>	<u>(4 637 738)</u>	<u>-</u>	<u>(251 660)</u>
Total general revenues and transfers					<u>7 921 059</u>	<u>(4 472 797)</u>	<u>3 448 262</u>	<u>(248 451)</u>
Change in net assets					<u>(73 976)</u>	<u>(647 912)</u>	<u>(721 888)</u>	<u>(162 765)</u>
Net assets - beginning					<u>20 255 789</u>	<u>57 200 604</u>	<u>77 456 393</u>	<u>647 211</u>
Net assets - ending					<u>\$20 181 813</u>	<u>\$56 552 692</u>	<u>\$76 734 505</u>	<u>\$484 446</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA
Balance Sheet
Governmental Funds
 June 30, 2012

Assets	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
Cash and cash equivalents	\$3 745 761	\$	\$3 745 761
Restricted cash	253 807		253 807
Receivables:			
Taxes	114 920		114 920
Accounts	155 808		155 808
Other	6 304		6 304
Due from other governments	606 641	61 584	668 225
Due governmental fund	61 584	(61 584)	
Inventories	10 920		10 920
Due from component unit	161 669		161 669
	<u>\$5 117 414</u>	<u>\$ -</u>	<u>\$5 117 414</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and accrued liabilities	\$ 457 685	\$	\$ 457 685
Deferred revenues	270 728		270 728
Unearned revenue	23 289		23 289
	<u>751 702</u>		<u>751 702</u>
Fund balances:			
Non spendable:			
Inventories	10 920		10 920
Restricted:			
Stabilization by State Statute	836 202		836 202
Streets	241 737		241 737
Statue	12 070		12 070
Assigned:			
Future acquisitions	470 000		470 000
Subsequent year expenditures	930 845		930 845
Unassigned	1 863 938		1 863 938
	<u>4 365 712</u>	<u>-</u>	<u>4 365 712</u>
	<u>\$5 117 414</u>	<u>\$ -</u>	<u>\$5 117 414</u>

Amounts reported for governmental activities in the statement of net assets (Exhibit 1) are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in fund statements	\$17 826 927
Other long-term assets (accrued interest receivable on taxes) are not available to pay for current period expenditures and therefore are deferred	14 300
Liabilities for earned but deferred revenue in fund statements	270 728
Some liabilities are not due and payable in the current period and are not reported in the fund statements:	
Compensated absences	\$ (244 642)
Long-term debt	<u>(2 051 212)</u>
Reconciling amount	15 816 101
Fund balance - June 30, 2012	<u>4 365 712</u>
Net assets governmental activities - June 30, 2012	<u>\$20 181 813</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Funds

For the Year Ended June 30, 2012

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues:			
Ad valorem taxes	\$ 1 628 136	\$ -	\$ 1 628 136
Other taxes and licenses	552 441		552 441
Unrestricted intergovernmental	876 616		876 616
Restricted intergovernmental	359 364		359 364
Permits and fees	40 032		40 032
Sales and services	1 338 639		1 338 639
Investment earnings	91 365		91 365
Miscellaneous	<u>63 964</u>		<u>63 964</u>
	<u>4 950 557</u>	<u>-</u>	<u>4 950 557</u>
Expenditures:			
Current:			
General government	1 692 672		1 692 672
Public safety	3 525 249		3 525 249
Transportation	1 175 195		1 175 195
Environmental protection	1 045 410		1 045 410
Cultural and recreation	1 429 684		1 429 684
Cemetery	5 468		5 468
Community development	66 362	402 749	469 111
Capital outlay	458 400		458 400
Debt service:			
Principal	212 867		212 867
Interest	<u>68 371</u>		<u>68 371</u>
	<u>9 679 678</u>	<u>402 749</u>	<u>10 082 427</u>
Revenues under expenditures	<u>(4 729 121)</u>	<u>(402 749)</u>	<u>(5 131 870)</u>
Other financing sources (uses):			
Operating transfers from			
Enterprise Funds	4 637 738		4 637 738
Operating transfers -			
Capital Projects	(11 500)	11 500	
Sale of fixed assets	17 040		17 040
Insurance recovery	135 155		135 155
Contributions		<u>391 249</u>	<u>391 249</u>
	<u>4 778 433</u>	<u>402 749</u>	<u>5 181 182</u>
Net changes in fund balance	49 312	-	49 312
Fund balance:			
Beginning	<u>4 316 400</u>	<u>-</u>	<u>4 316 400</u>
Ending	<u>\$ 4 365 712</u>	<u>\$ -</u>	<u>\$ 4 365 712</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Fund - General Fund

For the Year Ended June 30, 2012

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

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital outlay expenditures capitalized	\$ 458 400	
Depreciation for governmental assets	<u>(737 685)</u>	\$ (279 285)

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		212 867
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Tax revenues	9 091	
Environmental protection revenues	3 382	
Other	<u>(25)</u>	12 448

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.

Compensated absences	(48 450)	
Net pension obligation	<u>(20 868)</u>	<u>(69 318)</u>

Reconciling amount		(123 288)
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Net changes in fund balance - governmental fund		<u>49 312</u>
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Total changes in net assets of governmental activities		<u>\$ (73 976)</u>
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The notes to the financial statements are an integral part of this statement.

TOWN OF FOREST CITY, NORTH CAROLINA
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
Governmental Fund - General Fund
 For the Year Ended June 30, 2012

	Budget		Actual	Variance With
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 1 637 000	\$ 1 655 358	\$1 628 136	\$ (27 222)
Other taxes and licenses	602 000	512 000	552 441	40 441
Unrestricted				
intergovernmental	648 000	778 000	876 616	98 616
Restricted intergovernmental	477 781	316 400	359 364	42 964
Permits and fees	30 000	30 000	40 032	10 032
Sales and services	1 207 800	1 258 800	1 338 639	79 839
Investment earnings	70 400	70 400	91 365	20 965
Miscellaneous	59 500	59 500	63 964	4 464
	<u>4 732 481</u>	<u>4 680 458</u>	<u>4 950 557</u>	<u>270 099</u>
Expenditures:				
Current:				
General government	1 925 381	1 990 194	1 831 019	159 175
Public safety	3 935 550	3 785 550	3 721 104	64 446
Transportation	1 458 120	1 308 120	1 239 489	68 631
Environmental protection	1 047 500	1 047 500	1 045 410	2 090
Cultural and recreation	1 570 400	1 675 200	1 555 950	119 250
Cemetery	12 100	12 100	5 468	6 632
Debt service:				
Principal	166 667	212 867	212 867	
Interest	68 371	68 371	68 371	
Contingency	20 000	10 000		10 000
	<u>10 204 089</u>	<u>10 109 902</u>	<u>9 679 678</u>	<u>430 224</u>
Deficiency of revenues over expenditures	<u>(5 471 608)</u>	<u>(5 429 444)</u>	<u>(4 729 121)</u>	<u>700 323</u>
Other financing sources:				
Transfers from other funds	4 637 738	4 637 738	4 637 738	
Operating transfer to Capital Projects Fund		(11 500)	(11 500)	
Insurance recovery		135 000	135 155	155
Sale of fixed assets			17 040	17 040
Fund balance appropriated	833 870	668 206		(668 206)
	<u>5 471 608</u>	<u>5 429 444</u>	<u>4 778 433</u>	<u>(651 011)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>49 312</u>	<u>\$ 49 312</u>
Fund balance:				
Beginning of year			<u>4 316 400</u>	
End of year			<u>\$4 365 712</u>	

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Fund Net Assets

Proprietary Funds

June 30, 2012

	<u>Enterprise Funds</u>		
	<u>Electric Total</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 2 746 537	\$ 4 840 081	\$ 7 586 618
Accounts receivable:			
Billed - net	1 235 182	183 956	1 419 138
Unbilled	807 400	237 500	1 044 900
Other receivables	1 199	60 425	61 624
Restricted cash/cash equivalents	<u>212 522</u>	<u>84 825</u>	<u>297 347</u>
	<u>5 002 840</u>	<u>5 406 787</u>	<u>10 409 627</u>
Noncurrent assets:			
Capital assets:			
Land and other non-depreciable assets	115 715	342 537	458 252
Other capital assets, net of depreciation	<u>4 439 421</u>	<u>41 356 472</u>	<u>45 795 893</u>
	4 555 136	41 699 009	46 254 145
Other:			
Industrial development loan		950 000	950 000
	<u>4 555 136</u>	<u>42 649 009</u>	<u>47 204 145</u>
Total assets	<u>9 557 976</u>	<u>48 055 796</u>	<u>57 613 772</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	551 637	133 337	684 974
Compensated absences	17 527	61 232	78 759
Payable from restricted assets:			
Customer deposits	<u>212 522</u>	<u>84 825</u>	<u>297 347</u>
Total liabilities	<u>781 686</u>	<u>279 394</u>	<u>1 061 080</u>
Net assets:			
Invested in capital assets	4 555 136	41 699 009	46 254 145
Unrestricted	<u>4 221 154</u>	<u>6 077 393</u>	<u>10 298 547</u>
Total net assets	<u>\$ 8 776 290</u>	<u>\$47 776 402</u>	<u>\$56 552 692</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Revenues, Expenses, and

Changes in Fund Net Assets

Proprietary Funds

For the Fiscal Year Ended June 30, 2012

	<u>Enterprise Funds</u>		
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Charge for services	\$12 003 843	\$ 4 497 079	\$16 500 922
Water and sewer taps		37 250	37 250
Other operating revenue	<u>25 357</u>	<u>75 601</u>	<u>100 958</u>
	<u>12 029 200</u>	<u>4 609 930</u>	<u>16 639 130</u>
 Operating expenses:			
Administration	168 620	270 293	438 913
Operations	1 086 497	925 414	2 011 911
Electric power purchased	6 933 090		6 933 090
Water plant		591 114	591 114
Waste treatment plant		654 211	654 211
Pump station and storage		420 301	420 301
Depreciation	<u>457 388</u>	<u>1 307 317</u>	<u>1 764 705</u>
	<u>8 645 595</u>	<u>4 168 650</u>	<u>12 814 245</u>
 Operating income	3 383 605	441 280	3 824 885
 Nonoperating revenues (expenses):			
Investment earnings	<u>56 808</u>	<u>108 133</u>	<u>164 941</u>
 Income before transfers	3 440 413	549 413	3 989 826
 Transfers to other funds	<u>(3 637 738)</u>	<u>(1 000 000)</u>	<u>(4 637 738)</u>
 Change in net assets	(197 325)	(450 587)	(647 912)
 Total net assets - beginning	<u>8 973 615</u>	<u>48 226 989</u>	<u>57 200 604</u>
 Total net assets - ending	<u>\$ 8 776 290</u>	<u>\$47 776 402</u>	<u>\$56 552 692</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2012

	Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$11 849 482	\$4 591 685	\$16 441 167
Cash paid for goods and services	(8 038 009)	(1 371 427)	(9 409 436)
Cash paid to or on behalf of employees for services	(508 936)	(1 463 382)	(1 972 318)
Other operating revenues	<u>67 720</u>	<u>60 531</u>	<u>128 251</u>
	<u>3 370 257</u>	<u>1 817 407</u>	<u>5 187 664</u>
Cash flows from noncapital financing activities:			
Transfers to other funds	(3 637 738)	(1 000 000)	(4 637 738)
Industrial development loan		<u>(950 000)</u>	<u>(950 000)</u>
	<u>(3 637 738)</u>	<u>(1 950 000)</u>	<u>(5 587 738)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	<u>(115 963)</u>	<u>(633 827)</u>	<u>(749 790)</u>
Cash flows from investing activities:			
Interest on investments	<u>56 808</u>	<u>108 133</u>	<u>164 941</u>
Net decrease in cash and cash equivalents	<u>(326 636)</u>	<u>(658 287)</u>	<u>(984 923)</u>
Cash and cash equivalents:			
Beginning of year - July 1	<u>3 285 695</u>	<u>5 583 193</u>	<u>8 868 888</u>
End of year - June 30	<u>\$ 2 959 059</u>	<u>\$4 924 906</u>	<u>\$ 7 883 965</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Cash Flows

Proprietary Funds

For the Fiscal Year Ended June 30, 2012

	<u>Enterprise Funds</u>		
	<u>Electric</u>	<u>Water and</u>	<u>Total</u>
	<u>Fund</u>	<u>Sewer Fund</u>	
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 3 383 605</u>	<u>\$ 441 280</u>	<u>\$ 3 824 885</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	457 388	1 307 317	1 764 705
Decrease (increase) in assets:			
Accounts receivable	(122 729)	51 062	(71 667)
Other receivables	5 080	(6 614)	(1 534)
Increase (decrease) in liabilities:			
Accounts payable	(358 045)	12 224	(345 821)
Customer deposits	5 651	2 339	7 990
Compensated absences	<u>(693)</u>	<u>9 799</u>	<u>9 106</u>
Total adjustments	<u>(13 348)</u>	<u>1 376 127</u>	<u>1 362 779</u>
Net cash provided by operating activities	<u><u>\$ 3 370 257</u></u>	<u><u>\$1 817 407</u></u>	<u><u>\$ 5 187 664</u></u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2012

I. **Summary of Significant Accounting Policies**

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

(A) **Reporting Entity**

The Town of Forest City is a municipal corporation which is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town and its component unit, a legally separate entity for which the Town is financially accountable. The discretely presented component unit identified 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 Forest City ABC Board

The members of the ABC Board's governing board are appointed by the Forest City Town Council. In addition, the ABC Board is required by its state statute to distribute its surpluses to the Town's General Fund. The ABC Board, which has a June 30 year-end, is presented as if it were a proprietary fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative offices at Forest City ABC Board, 430 Oak Street, Forest City, N.C., 28043.

(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. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

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

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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. Separate statements for each fund category - governmental and proprietary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. The Town has no nonmajor funds or fiduciary funds.

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

The Town reports the following governmental funds:

General Fund - The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, intergovernmental, and various service fees. The primary expenditures are for public safety, street maintenance and construction, and recreation. The Town maintains a separate Parks and Recreation Fund for accounting purposes. This fund has been consolidated into the General Fund for reporting purposes.

Capital Projects Fund - This fund is used to account for capital projects which extend beyond a single fiscal year.

The Town reports the following enterprise funds:

Electric Fund - This fund is used to account for the Town's electric fund operations.

Water and Sewer Fund - This fund is used to account for the Town's water and sewer operations.

Capital Projects Fund - The fund is used to account for enterprise capital projects which extend beyond a single fiscal year.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

(C) **Measurement Focus and Basis of Accounting**

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

Government-wide and Proprietary Fund Financial Statements

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and 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 takes place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

Governmental Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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, Rutherford 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 Forest City. 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 Rutherford County from March 2011 through February 2012 apply to the fiscal year ended June 30, 2012. Uncollected taxes which 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 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.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

(D) **Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances, either annual or multi-year as appropriate, are adopted for the Capital Projects Fund, the Enterprise Fund Capital Projects Funds, and the Electric Rate Stabilization Fund. The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the function or department level, as appropriate, for all annually budgeted funds and at the function level for the multi-year funds. The Town Manager is authorized to transfer appropriations within a fund up to \$5,000; however, any revisions that alter the total expenditures of any fund or exceed \$5,000 must be approved by the governing board. During the year, several amendments to the original budget were made by the governing board. 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 ordinance can be adopted.

(E) **Assets, Liabilities, and Fund Equity**

Deposits and Investments

All deposits of the Town of Forest City 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 nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Capital Management Trust (NCCMT). The securities of the NCCMT-Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Cash and Cash Equivalents

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

Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the services for which the deposit was collected and cash restricted for the erection of a statue are reported as restricted. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets and sidewalks per G.S.136-41.1 through 136-41.4.

Ad Valorem Taxes Receivable

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

Allowance for Doubtful Accounts

All receivables that historically experience uncollectible accounts are shown net of an allowance for doubtful accounts. This amount is estimated based on amounts written off in prior years.

Inventory

The inventories of the Town of Forest City and the ABC Board are valued at cost (first-in, first-out), which approximates market. The Town's General Fund inventory consists primarily of gasoline which will be expensed as consumed by the various departments.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

\$5,000 for furniture, equipment, buildings and land; \$100,000 for infrastructure. 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. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Equipment	5
Office furniture	10
Tractors, backhoes	15
Vehicles - police	5
Vehicles - other	10
Buildings	40
Electric distribution system	25
Water and sewer systems	50
Streets, highways, curbing, and sidewalks	50

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</u>
Furniture and equipment	5-10
Building	30
Building improvements	10-29

Compensated Absences

The Town's vacation policy provides that an employee can carry-over one-half of the vacation hours earned in any calendar year; vacation hours can be accumulated up to 240 hours per employee; vacation hours in excess of 240 at December 31, are converted to sick-leave hours for consideration at retirement. The non-current portion of accumulated vacation pay which will be taken rather than converted to sick-leave is not considered to be material; therefore, the accrued liability is designated as a current liability in the government-wide financial statements.

ABC Board employees may accumulate up to thirty days earned vacation and such leave is fully vested when earned. Accumulated earned vacation at June 30, 2012 amounted to \$5,384. The current portion of accumulated vacation pay is not considered to be material.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Both the Town's and the ABC Board's sick leave policies provide for an 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 neither the Town nor the ABC Board has any 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 and proprietary fund 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 balance as follows:

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

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

Restricted for Stabilization by State Statute - This portion of fund balance is restricted by State Statute [GS 159-8(a)];

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

Restricted for Statue - Funds restricted by donors to be used in erecting a specific statue.

Committed Fund Balance - This portion of fund balance can only be used for specific purposes, imposed by majority vote by quorum of the Town of Forest City's Town Council (highest level of decision-making authority). Any changes or removal of specific purpose requires a majority action by the Town Council.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Assigned Fund Balance - This is the portion of Fund balance which the Town of Forest City intends to use for specific purposes.

Subsequent year's expenditures - This portion of fund balance is appropriated in next year's budget and is not already classified in the restricted or committed classifications.

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

The Town of Forest City has a revenue spending policy that provides guidance for programs with multiple revenue sources. The Director of Finance 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 Director of Finance has the authority to deviate from this policy if it is in the best interest of the Town.

II. **Stewardship, Compliance and Accountability**

Through a system update error, the face of the Town's checks did not bear the preaudit certificate signed by the Director of Finance as required by State Law [G.S.159-28(d)].

The oversight has been corrected and all checks now bear on their face the required preaudit certificate signed by the Director of Finance. Purchase orders and other documents indicate that the preaudit was completed routinely and consistently.

III. **Detail Notes on All Funds**

(A) **Assets**

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 Unit's agents in the Unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town and the ABC Board, these deposits are considered to be held by the Town's and the ABC Board's agents in their names. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the ABC Board or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town or the ABC Board under the Pooling Method, the potential exists for under-collateralization; this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has 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 verifying that deposits are properly secured. The ABC Board has no formal policy regarding custodial credit risk for deposits.

At June 30, 2012, the Town's deposits had a carrying amount of \$8,939,366 and a bank balance of \$9,064,620. Of the bank balance \$750,000 was covered by federal depository insurance and the balance was collateralized under the Pooling Method. The carrying amount of deposits of the ABC Board was \$452,748 and the bank balance was \$478,000; \$271,922 of the ABC Board's bank balance was covered by federal depository insurance and the remainder was collateralized under the Pooling Method. At June 30, 2012, the Town's drawer funds totaled \$2,600 and the ABC Board's totaled \$3,555.

Investments

At June 30, 2012, the Town of Forest City had \$2,941,567 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

Receivables - Allowance for Doubtful Accounts

Receivables at the government-wide level at June 30, 2012 were as follows:

	<u>Taxes & Accrued Interest</u>	<u>Accounts</u>	<u>Due From Other Governments</u>	<u>Other</u>
Governmental Activities:				
General	\$179 620	\$ 168 808	\$ 668 225	\$ 6 304
Allowance for doubtful accounts	<u>50 400</u>	<u>13 000</u>		
	<u>\$129 220</u>	<u>\$ 155 808</u>	<u>\$668 225</u>	<u>\$ 6 304</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

	Taxes & Accrued <u>Interest</u>	<u>Accounts</u>	Due From Other <u>Governments</u>	<u>Other</u>
Business-Type Activities:				
Electric	\$	\$2 090 082	\$	\$ 1 199
Water and sewer	<u> </u>	<u>425 856</u>	<u>58 451</u>	<u>1 974</u>
	-	2 515 938	58 451	3 173
 Allowance for doubtful accounts				
	<u>\$ -</u>	<u>51 900</u>	<u>\$ 58 451</u>	<u>\$ 3 173</u>
	<u> </u>	<u>\$2 464 038</u>	<u>\$ 58 451</u>	<u>\$ 3 173</u>

The "Due From Other Governments" that is owed to the Town consists of the following:

	<u>Governmental</u>	<u>Proprietary</u>
Sales tax refund	\$ 98 754	\$
Property taxes unremitted	62 210	
State taxes collected	231 664	
Cost reimbursements	135 620	50 000
Services rendered	15 279	8 451
ABC distributions	<u>124 698</u>	
	<u>\$668 225</u>	<u>\$ 58 451</u>

Industrial Development Loan Receivable

In accordance with an "Economic Development Agreement" dated September 19, 2011, the Town of Forest City agreed to advance \$950,000 to an industry as part of an incentive package to locate a manufacturing facility within Rutherford County. In accordance with a "Water Supply Agreement" as dated October 3, 2012 (supercedes Raw Water Supply Agreement as dated September 19, 2011), the industry will pay a fee "... for the various payments and services provided by the Town in connection with the construction of the Facilities (the Construction Contributions)..." in the amount of \$11,905 for 84 equal payments. This fee shall be in addition to the monthly billing for actual water usage and shall commence when the Town initially supplies water to the site.

It is anticipated that repayment will commence in late 2014. As the fee is received, the Town shall consider the \$50,000 received in excess of the \$950,000 advanced as imputed interest.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balances</u>
Governmental				
Activities:				
Capital assets				
not being				
depreciated:				
Land	\$ 7 610 675	\$ -	\$ -	\$ 7 610 675
		<u> </u>	<u> </u>	
Capital assets being				
depreciated:				
Equipment	\$ 3 574 880	\$ 135 083	\$ 8 390	\$ 3 701 573
Vehicles	2 980 277	297 859	147 757	3 130 379
Buildings	10 506 962	25 458		10 532 420
Infrastructure	1 114 000			1 114 000
	<u>18 176 119</u>	<u>\$ 458 400</u>	<u>\$ 156 147</u>	<u>18 478 372</u>
		<u> </u>	<u> </u>	
Less accumulated				
depreciation:				
Equipment	\$ 2 435 746	\$ 177 850	\$ 8 390	\$ 2 605 206
Vehicles	1 842 623	240 715	147 757	1 935 581
Buildings	3 169 880	296 779		3 466 659
Infrastructure	232 333	22 341		254 674
	<u>7 680 582</u>	<u>\$ 737 685</u>	<u>\$ 156 147</u>	<u>8 262 120</u>
		<u> </u>	<u> </u>	
Governmental				
activities				
capital assets -				
net	<u>\$18 106 212</u>			<u>\$17 826 927</u>

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

General government	\$ 219 066
Public safety	293 973
Transportation	152 639
Cultural and recreation	71 664
Cemetery	343
	<u>\$ 737 685</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balances</u>
Business-Type Activities:				
Electric Fund:				
Capital assets not being depreciated:				
Land	\$ 115 715	\$ -	\$ -	\$ 115 715
Capital assets being depreciated:				
Equipment	\$ 1 075 948	\$ 5 963	\$ -	1 081 911
Plant and lines	<u>10 375 007</u>	<u>110 000</u>		<u>10 485 007</u>
	<u>11 450 955</u>	<u>\$ 115 963</u>	<u>\$ -</u>	<u>11 566 918</u>
Less accumulated depreciation:				
Equipment	718 062	\$ 71 288	\$ -	789 350
Plant and lines	<u>5 952 047</u>	<u>386 100</u>		<u>6 338 147</u>
	<u>6 670 109</u>	<u>\$ 457 388</u>	<u>\$ -</u>	<u>7 127 497</u>
Electric Fund capital assets- net	<u>4 896 561</u>			<u>4 555 136</u>
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	110 338	\$ 67 544	\$ -	177 882
Work in process		<u>164 655</u>		<u>164 655</u>
	<u>110 338</u>	<u>\$ 232 199</u>	<u>\$ -</u>	<u>342 537</u>
Capital assets being depreciated:				
Equipment	3 896 016	\$ 129 628	\$ -	4 025 644
Plant and lines	<u>57 155 211</u>	<u>272 000</u>		<u>57 427 211</u>
	<u>61 051 227</u>	<u>\$ 401 628</u>	<u>\$ -</u>	<u>61 452 855</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balances</u>
Less				
accumulated				
depreciation:				
Equipment	\$ 2 437 706	\$ 194 858	\$ -	\$ 2 632 564
Plant and lines	<u>16 351 360</u>	<u>1 112 459</u>	<u>-</u>	<u>17 463 819</u>
	<u>18 789 066</u>	<u>\$1 307 317</u>	<u>\$ -</u>	<u>20 096 383</u>
Water and Sewer				
Fund capital				
assets - net	<u>42 372 499</u>			<u>41 699 009</u>
Business-type				
activities				
capital assets				
net	<u>\$47 269 060</u>			<u>\$46 254 145</u>
Commitments				

The Primary Government has one active construction project as of June 30, 2012. At year end, the Town had outstanding contractor commitments for this project in the amount of approximately \$123,000.

Discretely Presented Component Unit

Capital asset activity for the Forest City ABC Board for the period ended June 30, 2012 was as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balances</u>
Capital assets not				
being depreciated:				
Land	\$ 50 000	\$ -	\$ -	\$ 50 000
Capital asset				
being depreciated:				
Equipment	89 049	\$	\$	89 049
Building and				
improvements	<u>300 000</u>	<u>-</u>	<u>-</u>	<u>300 000</u>
	<u>389 049</u>	<u>\$ -</u>	<u>\$ -</u>	<u>389 049</u>
Less accumulated				
depreciation:				
Equipment	56 743	\$ 10 867	\$	67 610
Building and				
improvements	<u>81 667</u>	<u>10 000</u>	<u>-</u>	<u>91 667</u>
	<u>138 410</u>	<u>20 867</u>	<u>\$ -</u>	<u>159 277</u>
Forest City ABC				
capital assets -				
net	<u>\$300 639</u>			<u>\$279 772</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statement

(B) Liabilities

Payables

Payables at the government-wide level at June 30, 2012 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
Government Activities:			
General	\$ 381 982	\$ 75 703	\$ 457 685
Business-Type Activities:			
Enterprise	\$ 659 799	\$ 25 175	\$ 684 974

Pension Plan Obligation and Post-Employment Obligations:

a) Local Governmental Employees' Retirement System

Plan Description: The Town of Forest City contributes to the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS 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. That report may be obtained by writing the Office of 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 six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. The Town's current rate for employees not engaged in law enforcement and for law enforcement officers is 11.97% and 12.05%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Forest City are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2012, 2011, and 2010 were \$594,280, \$538,000, and \$444,201 respectively. The contributions made by the Town equaled the required contributions for each year.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

b) Law Enforcement Officers Special Separation Allowance

Plan Description: The Town of Forest City 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% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2011, the Separation Allowance's membership consisted of:

Retirees receiving benefits	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>32</u>
Total	<u>34</u>

A separate report was not issued for the plan.

Summary of Significant Accounting Policies:

Basis of Accounting: The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting.

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

Contributions: The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the benefit payments on a pay as you go basis through appropriations made in the General Fund operating budget. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. There were no contributions made by employees.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

The annual required contribution for the current year was determined as part of the December 31, 2011 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases.

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

Annual required contribution	\$ 53 292
Interest on net pension obligation	12 628
Adjustment to annual required contribution	<u>(15 067)</u>
Annual pension cost	50 853
Contributions made	<u>29 985</u>
Increase in net pension obligation	20 868
Net pension obligation beginning of year	<u>252 567</u>
Net pension obligation end of year	<u><u>\$273 435</u></u>

3 Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/10	39 803	75.33%	225 986
6/30/11	56 566	53.01%	252 567
6/30/12	50 853	58.96%	273 435

Funded Status and Funding Progress: As of December 31, 2011, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$485,656. The covered payroll (annual payroll of active employees covered by the plan) was \$1,388,529, and the ratio of the UAAL to the covered payroll was 34.98%.

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

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

c) Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy: Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2012 were \$82,329 which consisted of \$71,068 from the Town and \$11,261 from the law enforcement officers.

d) Firemen's Pension Fund

Plan Description: The State of North Carolina contributes, on behalf of the Town of Forest City to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible firemen who have elected to become members of the Fund.

Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's Pension Fund 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 the Firemen's and Rescue Squad Workers' Pension Fund. 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.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Funding Policy: Plan members are required to contribute \$10 per month to the Fund. The State, a nonemployer contributor, funds the plan through appropriations. The Town does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly. For the current fiscal year, the Town has recognized on-behalf payments made by the State for \$12,229 as a revenue and an expenditure.

e) **Other Postemployment Benefits**

Forest City is one of the state municipal units which has elected to come under the state retirement system as administered for school systems in regards to postemployment benefits.

Health Care Benefits

Plan Description: The postemployment health care benefits are provided through a cost-sharing multiple-employer defined benefit plan administered by the Executive Administrator and the Board of Trustees of the Comprehensive Major Medical Plan (the Plan). The Executive Administrator and the Board of Trustees of the Plan establishes premium rates except as may be established by the General Assembly in an appropriation act. The Plan's benefit and contribution provisions are established by Chapter 135-7, Article 1, and Chapter 135, Article 3 of the General Statutes and may be amended only by the North Carolina General Assembly. By General Statute, the Plan accumulates contributions from employers and any earnings on those contributions in the Retiree Health Benefit fund. These assets shall be used to provide health benefits to retired and disabled employees and their applicable beneficiaries. These contributions are irrevocable. Also by law, these assets are not subject to the claims of creditors of the employers making contributions to the Plan.

The State of North Carolina issues a publicly available financial report that includes financial statements and required supplementary information for the State's Comprehensive Major Medical Plan (also, referred to as the State Health Plan). An electronic version of this report is available by accessing the North Carolina Office of the State Controller's Internet home page <http://www.ncosc.net/> and clicking on "Financial Reports", or by calling the State Controller's Financial Reporting Section at (919)981-5454.

Funding Policy: The Comprehensive Major Medical Plan is administered by the Executive Administrator and Board of Trustees of the Plan, which establish premium rates except as may be established by the General Assembly in an appropriate act. The health care benefits for retired and disabled employees are the same as for active employees, except that the coverage becomes secondary when former employees become eligible for Medicare.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

For employees first hired on and after October 1, 2006, future coverage as retired employees is subject to the requirement that the future retiree have 20 or more years of retirement service credit in order to receive coverage on a noncontributory basis. Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium. For employees hired before October 1, 2006, health care benefits are provided to retirees (at no charge to the retirees) who have at least five years of contributing retirement membership prior to disability or retirement. In addition, persons who became surviving spouses prior to October 1, 1986, receive the same coverage as retirees at the State's expense.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Plan, which are intended to finance benefits and administrative expenses on a pay-as-you-go basis, are determined by the General Assembly in the Appropriations Bill. For the fiscal years ended June 30, 2012, 2011, and 2010, the Town paid all annual required contributions to the Plan for postemployment health care benefits of \$247,800, \$231,900, and \$212,300 respectively. These contributions represented 4.9%, 4.9%, and 4.5% of covered payroll, respectively.

f) Other Employment 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. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

June 30, 2012, the Town made contributions to the State for death benefits of \$5,200. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented .09% and .14% of covered payroll, respectively. The contributions to the Death Benefit Plan cannot be separated between the postemployment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

Deferred/Unearned Revenues

The balance in deferred/unearned revenues on the General Fund balance sheet at June 30, 2012 is composed of the following:

	<u>Deferred Revenue</u>	<u>Unearned Revenue</u>
Property taxes:		
Prepaid taxes	\$	\$23 289
Taxes receivable-net	114 920	
Solid waste fee receivable-net	150 093	
Cemetery lots receivable	<u>5 715</u>	
	<u>\$270 728</u>	<u>\$23 289</u>

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 secures insurance coverage for these risks from several commercial insurance companies. The Town's insurance coverage includes: (1) general liability, \$11 million; (2) fire coverage on buildings at estimated replacement costs and up to \$5 million for flood and earthquake; (3) errors and omissions liability, \$11 million; (4) auto liability, \$11 million and (5) public officials liability, \$13 million. Various deductibles apply to coverage amounts. In addition, the Town secures workers' compensation coverage up to the statutory limits and an employers' liability limit of \$1 million. All of these coverages are secured through commercial insurance companies.

There have been no significant reductions in the Town's insurance coverage in the prior year; settled fidelity claims have exceeded coverage in one of the past three fiscal years.

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 director is individually bonded for \$50,000. The remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Long-Term Obligations

During the year ended June 30, 2008, the Town incurred the following long-term obligation to finance the construction of a municipal baseball facility:

	<u>Total Due</u>
Commercial note issued in the amount of \$2,500,000; collateral is improvements financed by the note proceeds; 3.66% annual rate; due monthly \$13,889 plus interest	\$1 777 777
Due currently	<u>166 667</u>
Due after 12 months	<u>\$1 611 110</u>

Annual debt service payments for this installment purchase obligation are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 166 667	\$ 62 271	\$ 228 938
2014	166 667	56 171	222 838
2015	166 667	50 071	216 738
2016	166 667	43 971	210 638
2017	166 667	37 871	204 538
Next five years	833 331	97 854	931 185
2023	<u>111 111</u>	<u>1 525</u>	<u>112 636</u>
	<u>\$1 777 777</u>	<u>\$349 734</u>	<u>\$2 127 511</u>

During the year ended June 30, 2012, the following changes occurred in long-term debt obligations:

	<u>Balance</u>			<u>Balance</u>	<u>Current</u>
	<u>07/01/11</u>	<u>Increase</u>	<u>Decrease</u>	<u>06/30/12</u>	<u>Portion</u>
Governmental activities:					
Commercial note	\$1 944 444	\$	\$166 667	\$1 777 777	\$166 667
Installment purchase	46 200		46 200		
Net pension obligation	<u>252 567</u>	<u>20 868</u>		<u>273 435</u>	
	<u>\$2 243 211</u>	<u>\$ 20 868</u>	<u>\$212 867</u>	<u>\$2 051 212</u>	<u>\$166 667</u>
Component unit:					
Due Town	<u>\$ 195 825</u>	<u>\$ -</u>	<u>\$ 34 156</u>	<u>\$ 161 669</u>	<u>\$ 38 745</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

The ABC Board's long-term debt as above consisted at June 30, 2012 of the following:

..Promissory note to the Town of Forest City for the purchase and construction of the ABC facility and secured by a deed of trust on that real estate, due \$2,768 monthly including interest at 5%. Amount due within 12 months is \$38,745.

At June 30, 2012, the Town of Forest City had no bonds which were authorized as outstanding; the Town's legal debt margin was approximately \$45,000,000.

(C) **Interfund Activity**

Transfers to/from other funds for the year ended June 30, 2012 consist of the following:

General Fund to Capital Projects Fund	\$ 11 500
Electric Fund to Parks and Recreation Fund	\$ 637 738
Electric Fund to General Fund	\$3 000 000
Water Sewer Fund to General Fund	\$1 000 000
Water Sewer Fund to Capital Projects Fund	\$ 50 000

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, including amounts provided matching funds for various grant programs. The current year transfers were to supplement funding of the General Fund and the Capital Projects Fund.

(D) **Revenues, Expenditures, and Expenses**

On-Behalf Payments for Fringe Benefits

For the fiscal year ended June 30, 2012, the Town of Forest City has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$12,229 for the firemen who perform firefighting duties for the Town's fire department. The firemen elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

(E) Fund Balance

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

Total fund balance - General Fund		\$4 365 712
Less: Inventories	\$ 10 920	
Stabilization by State Statute	836 202	
Streets - Powell Bill	241 737	
Statue	12 070	
Future acquisitions	470 000	
Appropriated fund balance in 2013 budget	<u>930 845</u>	<u>2 501 774</u>
Unassigned - available for appropriation		<u>\$1 863 938</u>

IV. Related Organization

The five-member board of the Forest City Housing Authority is appointed by the Board of Commissioners of Forest City. The Town is accountable for the Housing Authority because it appoints the governing board; however, the Town is not financially accountable for the Housing Authority. The Town of Forest City is also disclosed as a related organization in the notes to the financial statements for the Forest City Housing Authority. Complete financial statements for the Housing Authority can be obtained from its office at 147 East Spruce Street, Forest City, North Carolina 28043.

V. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

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

TOWN OF FOREST CITY, NORTH CAROLINA

REQUIRED SUPPLEMENTAL FINANCIAL DATA

TOWN OF FOREST CITY, NORTH CAROLINA

Law Enforcement Officers Special Separation Allowance

Required Supplemental Information

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Proj Unit Credit (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll for Year Ending on Val Date (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/06	0	266 012	266 012	0.00	1 172 158	22.69
12/31/07	0	319 580	319 580	0.00	1 310 640	24.38
12/31/08	0	301 192	301 192	0.00	1 376 359	21.88
12/31/09	0	509 701	509 701	0.00	1 363 482	37.38
12/31/10	0	475 950	475 950	0.00	1 343 309	35.43
12/31/11	0	485 656	485 656	0.00	1 388 529	34.98

TOWN OF FOREST CITY, NORTH CAROLINA

Law Enforcement Officers Special Separation Allowance

Required Supplemental Information

Schedule of Employer Contributions

Fiscal Year Ended <u>June 30,</u>	Annual Required <u>Contributions</u>	Percentage <u>Contributed</u>
2007	30 416	73.48
2008	30 572	73.11
2009	37 708	54.26
2010	37 748	79.43
2011	57 366	52.27
2012	53 292	56.27

Notes to the Required Schedules

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

Valuation date	December 31, 2011
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	20 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.0%
Projected salary increases*	4.25 - 7.85%
*Includes inflation at	3.00%
Cost-of living adjustments	None

TOWN OF FOREST CITY, NORTH CAROLINA

INDIVIDUAL FUND STATEMENTS AND SCHEDULES

TOWN OF FOREST CITY, NORTH CAROLINA
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
<u>Revenues:</u>			
Ad valorem taxes:			
Taxes	\$ 1 646 358	\$1 612 098	\$ (34 260)
Penalties and interest	9 000	16 038	7 038
	<u>1 655 358</u>	<u>1 628 136</u>	<u>(27 222)</u>
Other taxes and licenses:			
Local option sales taxes	498 000	546 089	48 089
Privilege licenses		580	580
Fire district tax	4 000	4 000	
Sales tax refund	10 000	1 772	(8 228)
	<u>512 000</u>	<u>552 441</u>	<u>40 441</u>
Unrestricted intergovernmental:			
Utility franchise tax	189 000	213 348	24 348
Telecommunications sales tax	141 000	158 479	17 479
Piped natural gas tax	27 000	30 447	3 447
Video programming sales tax	38 000	42 766	4 766
Court costs and fees	3 000	4 320	1 320
Beer and wine tax	30 000	32 491	2 491
Hold harmless revenue	140 000	178 120	38 120
Policing subsidies and fees	29 000	28 450	(550)
ABC profit distributions	175 000	175 458	458
Payments-in-lieu	6 000	12 737	6 737
	<u>778 000</u>	<u>876 616</u>	<u>98 616</u>
Restricted intergovernmental:			
Powell Bill allocation	225 000	239 128	14 128
Controlled substance tax	2 000	7 160	5 160
On-behalf of payments - fire retirement		12 229	12 229
ABC allocations	10 000	4 173	(5 827)
Cultural - grants	2 000	400	(1 600)
Fire Department grants		8 667	8 667
Police Department grants		5 836	5 836
Main Street Energy Grants	66 400	66 362	(38)
Planning grant		3 698	3 698
State Fire Fund	8 000	6 591	(1 409)
Solid waste disposal	3 000	5 120	2 120
	<u>316 400</u>	<u>359 364</u>	<u>42 964</u>
Permits and fees:			
Building permits	28 000	37 536	9 536
Code enforcement fees	2 000	2 496	496
	<u>30 000</u>	<u>40 032</u>	<u>10 032</u>

TOWN OF FOREST CITY, NORTH CAROLINA
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Sales and services:			
Recreation department	\$ 279 300	\$ 298 690	\$ 19 390
Waste collection fees	950 000	992 071	42 071
Cemetery lots	2 000	6 125	4 125
Fire protection fees	4 000	4 581	581
Other sales and services	23 500	37 172	13 672
	1 258 800	1 338 639	79 839
Investment earnings	70 400	91 365	20 965
Miscellaneous:			
Rents	55 500	52 657	(2 843)
Contributions - local		10 725	10 725
Other	4 000	582	(3 418)
	59 500	63 964	4 464
Total revenues	4 680 458	4 950 557	270 099
Expenditures:			
General government:			
Governing body:			
Salaries and benefits		56 565	
Materials and supplies		9 327	
Repairs and maintenance		525	
Election expense		2 775	
Other		36 222	
	113 350	105 414	7 936
Administration:			
Salaries and benefits		397 488	
Materials and supplies		56 899	
Repairs and maintenance		56 778	
Court settlement		209 336	
Other		97 138	
Capital outlay		49 317	
	887 694	866 956	20 738
Finance and legal:			
Salaries and benefits		226 605	
Professional fees		25 675	
Materials and supplies		28 104	
Repairs and maintenance		51 752	
Other		27 140	
	428 900	359 276	69 624

TOWN OF FOREST CITY, NORTH CAROLINA
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Planning and inspections:			
Salaries and benefits	\$	\$ 270 978	\$
Grant expenditures		68 362	
Materials and supplies		8 559	
Repairs and maintenance		5 723	
Other		105 135	
Capital outlay		<u>22 668</u>	
	539 150	<u>481 425</u>	57 725
Public buildings:			
Repairs and maintenance		11 527	
Utilities		2 622	
Insurance		1 064	
Other		<u>2 735</u>	
	<u>21 100</u>	<u>17 948</u>	<u>3 152</u>
Total general government	<u>1 990 194</u>	<u>1 831 019</u>	<u>159 175</u>
Public safety:			
Police:			
Salaries and benefits		2 170 823	
Automotive supplies and repair		126 275	
Insurance		38 001	
Uniforms		23 842	
Repairs and maintenance		57 330	
Other		104 535	
Capital outlay		<u>173 625</u>	
	2 697 050	<u>2 694 431</u>	2 619
Fire:			
Salaries and benefits		834 502	
Insurance		35 977	
Materials and supplies		37 899	
On-behalf payments		12 229	
Repairs and maintenance		17 585	
Other		66 251	
Capital outlay		<u>22 230</u>	
	<u>1 088 500</u>	<u>1 026 673</u>	<u>61 827</u>
Total public safety	<u>3 785 550</u>	<u>3 721 104</u>	<u>64 446</u>

TOWN OF FOREST CITY, NORTH CAROLINA
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Transportation:			
Streets and highways:			
Salaries and benefits	\$	\$ 524 883	\$
Utilities		85 616	
Materials and supplies		63 816	
Repairs and maintenance		254 967	
Other		26 461	
Capital outlay		64 294	
	1 037 760	1 020 037	17 723
Warehouse and garage:			
Salaries and benefits		150 290	
Repairs and maintenance		20 820	
Supplies		20 846	
Other		27 496	
	270 360	219 452	50 908
Total transportation	1 308 120	1 239 489	68 631
Environmental protection:			
Supplies		7 062	
Contract services		1 031 779	
Landfill fee		6 569	
Total environmental protection	1 047 500	1 045 410	2 090
Cultural and recreational:			
Parks and recreation:			
Salaries and benefits		812 900	
Supplies		167 000	
Repairs and maintenance		115 823	
Other		204 180	
Debt service:			
Principal		212 867	
Interest		68 371	
Capital outlay		126 266	
	1 820 738	1 707 407	113 331
Library:			
Salaries and benefits		85 394	
Supplies		16 722	
Repairs and maintenance		19 405	
Other		8 260	
	135 700	129 781	5 919
Total cultural and recreational	1 956 438	1 837 188	119 250

TOWN OF FOREST CITY, NORTH CAROLINA
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Cemetery:			
Supplies	\$	\$ 4 107	\$
Repairs and maintenance		292	
Other		1 069	
Total cemetery	<u>12 100</u>	<u>5 468</u>	<u>6 632</u>
Contingency	<u>10 000</u>		<u>10 000</u>
Total expenditures	<u>10 109 902</u>	<u>9 679 678</u>	<u>430 224</u>
Revenues under expenditures	<u>(5 429 444)</u>	<u>(4 729 121)</u>	<u>700 323</u>
Other financing sources (uses):			
Operating transfers from Enterprise Funds	4 637 738	4 637 738	
Operating transfers from (to) Capital Projects Fund:			
Community Revitalization Project	(11 500)	(11 500)	
Insurance recovery	135 000	135 155	155
Sale of fixed assets		17 040	17 040
Fund balance appropriated	<u>668 206</u>		<u>(668 206)</u>
	<u>5 429 444</u>	<u>4 778 433</u>	<u>(651 011)</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>49 312</u>	<u>\$ 49 312</u>
Fund balance:			
Beginning of year		<u>4 316 400</u>	
End of year		<u>\$4 365 712</u>	

TOWN OF FOREST CITY, NORTH CAROLINA
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
Capital Projects Fund
From Inception and for the Year Ended June 30, 2012

	Project Authorization	Prior Years	Actual		Variance Positive (Negative)
			Current Year	Total To Date	
N.C. Small Towns Prosperity Program (NC STEP-FY 08)					
Revenues:					
Restricted intergovernmental:					
State grants:					
Rural Economic Development Center, Inc.	\$ 100 000	\$ 23 500	\$ 38 084	\$ 61 584	\$ (38 416)
Expenditures:					
Branding and marketing	10 000	3 500	3 619	7 119	2 881
Small business incentives	50 000		28 150	28 150	21 850
Highway 74 build-out plan	7 500		6 315	6 315	1 185
Business apprentice program	12 500				12 500
Broadband connectivity increase	<u>20 000</u>	<u>20 000</u>		<u>20 000</u>	
	<u>100 000</u>	<u>23 500</u>	<u>38 084</u>	<u>61 584</u>	<u>38 416</u>
Revenues over expenditures - Project	-	-	-	-	-
Community Revitalization Project:					
Revenues:					
Restricted intergovernmental:					
U.S. Department of Housing and Urban Development Passed-Through					
N.C. Department of Commerce - CDBG	\$1 000 000	\$ 491 487	\$ 353 165	\$ 844 652	\$(155 348)
Private sector new construction	<u>300 000</u>				<u>(300 000)</u>
	<u>\$1 300 000</u>	<u>491 487</u>	<u>353 165</u>	<u>844 652</u>	<u>(455 348)</u>
Expenditures:					
Acquisition/Disposition	71 500	38 092	12 012	50 104	21 396
Street improvements	170 000	93 125	52 445	145 570	24 430
Flood and drainage improvements	60 000	58 206	1 794	60 000	
Public sewer improvements	155 000	79 058	55 782	134 840	20 160
Public water improvements	100 000	61 266	25 726	86 992	13 008
Clearance activities	22 500		22 321	22 321	179
Public services	25 000	24 996		24 996	4
Relocation assistance	5 900	2 925	1 100	4 025	1 875
Rehabilitation of privately owned dwellings	371 801	147 205	176 186	323 391	48 410
Down payment assistance	19 000				19 000
New home construction (private sector)	300 000				300 000
Planning	3 500	3 500		3 500	
Administration	89 299	72 000	17 299	89 299	
Contingency	<u>6 500</u>				<u>6 500</u>
	<u>1 400 000</u>	<u>580 373</u>	<u>364 665</u>	<u>945 038</u>	<u>454 962</u>
Revenues under expenditures	(100 000)	(88 886)	(11 500)	(100 386)	(386)

TOWN OF FOREST CITY, NORTH CAROLINA
Schedule of Revenues and Expenditures -
Budget and Actual (Non-GAAP)
Capital Projects Fund
From Inception and for the Year Ended June 30, 2012

	<u>Project Authorization</u>	<u>Actual</u>			<u>Variance Positive (Negative)</u>
		<u>Prior Years</u>	<u>Current Year</u>	<u>Total To Date</u>	
Other financing sources and (uses):					
Transfer from General Fund	\$ 100 000	\$ 88 886	\$ 11 500	\$ 100 386	\$ 386
Revenues and other financing sources over expenditures - Project	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenues and other financing sources over (under) expenditures - Fund	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Electric Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Electricity sales	\$11 745 000	\$11 725 072	\$ (19 928)
Late payment penalties	220 000	273 118	53 118
Tap and connection fees	2 000	965	(1 035)
Reconnection and transfer fees	6 000	4 688	(1 312)
Cable pole fees	11 000	13 280	2 280
Other operating revenue	36 000	12 077	(23 923)
	<u>12 020 000</u>	<u>12 029 200</u>	<u>9 200</u>
Nonoperating revenue:			
Interest earnings	64 000	56 808	(7 192)
	<u>12 084 000</u>	<u>12 086 008</u>	<u>2 008</u>
Expenditures:			
Administration:			
Salaries and benefits		91 046	
Credit card fees		69 828	
Other		7 746	
	279 400	<u>168 620</u>	110 780
Operations:			
Salaries and benefits		419 406	
Supplies		144 914	
Repairs and maintenance		272 200	
Other		249 977	
	1 490 431	<u>1 086 497</u>	403 934
Electric power purchased	6 950 000	<u>6 933 090</u>	16 910
Capital outlay:			
Plant and lines		110 000	
Equipment		5 963	
	120 000	<u>115 963</u>	4 037
Contingency	10 000		10 000
	<u>8 849 831</u>	<u>8 304 170</u>	<u>545 661</u>
Total expenditures			
Revenues over expenditures	<u>3 234 169</u>	<u>3 781 838</u>	<u>547 669</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Electric Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2012

	<u>2012</u>		
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Other financing sources (uses):			
Transfers to other funds:			
General Fund	\$(3 637 738)	\$(3 637 738)	\$
Fund balance appropriated	<u>403 569</u>		<u>(403 569)</u>
	<u>(3 234 169)</u>	<u>(3 637 738)</u>	<u>(403 569)</u>
Revenue under expenditures and other financing uses	\$ -	<u>144 100</u>	\$ 144 100
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		115 963	
Depreciation		<u>(457 388)</u>	
		<u>(341 425)</u>	
Change in net assets		<u>\$ (197 325)</u>	

TOWN OF FOREST CITY, NORTH CAROLINA

Electric Rate Stabilization Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2012

	<u>Project Authorization</u>	<u>Prior Years</u>	<u>Current Year</u>	<u>Total to Date</u>	<u>Variance Positive (Negative)</u>
Other financing sources (uses):					
Transfers from Electric Fund	\$ 755 131	\$ 755 131	\$ -	\$ 755 131	\$ -
Transfers to Electric Fund	<u>(755 131)</u>	<u>(252 218)</u>	<u>-</u>	<u>(252 218)</u>	<u>502 913</u>
Other financing sources (uses)	<u>\$ -</u>	<u>\$ 502 913</u>	<u>-</u>	<u>\$ 502 913</u>	<u>\$ 502 913</u>
Fund balance:					
Beginning			<u>502 913</u>		
Ending			<u>\$502 913</u>		

TOWN OF FOREST CITY, NORTH CAROLINA

Water and Sewer Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Water sales	\$3 150 000	\$3 179 210	\$ 29 210
Sewer charges	1 311 000	1 317 869	6 869
Tap and connection fees	35 000	37 250	2 250
Operating grant		37 179	37 179
Other	<u>35 500</u>	<u>38 422</u>	<u>2 922</u>
	4 531 500	4 609 930	78 430
Nonoperating revenues:			
Interest	<u>80 000</u>	<u>108 133</u>	<u>28 133</u>
Total revenues	<u>4 611 500</u>	<u>4 718 063</u>	<u>106 563</u>
Expenditures:			
Administration:			
Salaries and benefits		231 405	
Supplies		28 840	
Repairs and maintenance		4 100	
Industrial development loan		950 000	
Other		<u>5 948</u>	
	<u>1 287 800</u>	<u>1 220 293</u>	<u>67 507</u>
Water operations:			
Salaries and benefits		295 147	
Supplies		175 692	
Repairs and maintenance		31 559	
Other		<u>84 086</u>	
	<u>996 500</u>	<u>586 484</u>	<u>410 016</u>
Water plant:			
Salaries and benefits		319 578	
Supplies		97 665	
Repairs and maintenance		51 277	
Utilities		78 359	
Other		<u>44 235</u>	
	<u>740 000</u>	<u>591 114</u>	<u>148 886</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Water and Sewer Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2012

	<u>2012</u>		Variance
	<u>Budget</u>	<u>Actual</u>	Positive (Negative)
Sewer Operations:			
Salaries and benefits	\$	\$ 152 446	\$
Supplies		22 660	
Repairs and maintenance		51 917	
Other		<u>111 907</u>	
	<u>730 900</u>	<u>338 930</u>	<u>391 970</u>
Waste treatment plant:			
Salaries and benefits		287 188	
Supplies		78 467	
Utilities		184 922	
Repairs and maintenance		42 136	
Other		<u>61 498</u>	
	<u>678 500</u>	<u>654 211</u>	<u>24 289</u>
Pump station and storage:			
Salaries and benefits		193 621	
Supplies		17 433	
Utilities		82 659	
Repairs and maintenance		113 898	
Other		<u>12 690</u>	
	<u>533 400</u>	<u>420 301</u>	<u>113 099</u>
Capital outlay:			
Water operations	110 000	106 363	3 637
Water plant	59 200	53 900	5 300
Sewer operations	275 000	272 000	3 000
Waste treatment plant	20 000	14 892	5 108
Pump station and storage	<u>25 000</u>	<u>21 990</u>	<u>3 010</u>
	<u>489 200</u>	<u>469 145</u>	<u>20 055</u>
Total expenditures	<u>5 456 300</u>	<u>4 280 478</u>	<u>1 175 822</u>
Revenues over (under) expenditures	<u>(844 800)</u>	<u>437 585</u>	<u>1 282 385</u>

TOWN OF FOREST CITY, NORTH CAROLINA
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2012

	2012		Variance Positive (Negative)
	Budget	Actual	
Other financing sources (uses):			
Operating transfer:			
To General Fund	\$(1 000 000)	\$(1 000 000)	\$
To Broad River Capital Project	(50 000)	(50 000)	
Fund balance appropriated	<u>1 894 800</u>	<u> </u>	<u>(1 894 800)</u>
	<u>844 800</u>	<u>(1 050 000)</u>	<u>(1 894 800)</u>
Revenue and other sources under expenditures	\$ -	<u>(612 415)</u>	\$ (612 415)
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		469 145	
Depreciation		(1 307 317)	
Contributions to Capital Project Fund		50 000	
Industrial development loan		<u>950 000</u>	
		<u>161 828</u>	
Change in net assets		<u>\$(450 587)</u>	

Town of Forest City, North Carolina
 Water Sewer Capital Project Fund
 Schedule of Revenues and Expenditures
 Budget and Actual (Non-GAAP)
 From Inception and for the Year Ended June 30, 2012

	Project Authorization	Actual		Total To Date	Variance Positive (Negative)
		Prior Years	Current Year		
Broad River Water Sewer Project:					
Revenues:					
Restricted intergovernmental:					
Federal grant:					
Community Development Block Grant through N.C.Department of Commerce through Rutherford County	\$ 960 000	\$ -	\$ -	\$ -	\$(960 000)
State grants:					
Rural Economic Development Center, Inc.	1 000 000				(1 000 000)
N.C. Department of Commerce - Industrial Development Fund	<u>500 000</u>				<u>(500 000)</u>
	<u>2 460 000</u>	-	-	-	<u>(2 460 000)</u>
Expenditures:					
Technical services	321 000	-	162 075	162 075	158 925
Grant administration	26 000		2 580	2 580	23 420
Water construction	1 375 839				1 375 839
Sewer construction	525 694				525 694
Contingency	<u>261 467</u>				<u>261 467</u>
	<u>2 510 000</u>	-	<u>164 655</u>	<u>(164 655)</u>	<u>2 345 345</u>
Revenue under expenditures	<u>(50 000)</u>	-	<u>(164 655)</u>	<u>(164 655)</u>	<u>(114 655)</u>
Other financing sources:					
Water Sewer Fund transfer	50 000		50 000	50 000	
Water Sewer Fund advances	<u>-</u>		<u>114 655</u>	<u>114 655</u>	<u>114 655</u>
	<u>50 000</u>	-	<u>164 655</u>	<u>164 655</u>	<u>114 655</u>
Revenue and other sources over expenditures	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF FOREST CITY, NORTH CAROLINA

General Fund

Schedule of Ad Valorem Taxes Receivable

June 30, 2012

Year of Levy	Uncollected Balance <u>June 30, 2011</u>	<u>Additions</u>	<u>Collections and Credits</u>	Uncollected Balance <u>June 30, 2012</u>
2011	\$	\$1 629 874	\$1 550 203	\$ 79 671
2010	82 192		52 667	29 525
2009	21 171		6 100	15 071
2008	14 975		2 761	12 214
2007	9 983		2 046	7 937
2006	7 192		777	6 415
2005	5 410		537	4 873
2004	3 767		295	3 472
2003	3 359		144	3 215
2002	6 010		3 083	2 927
2001	<u>370</u>		<u>370</u>	<u>-</u>
	<u>\$154 429</u>	<u>\$1 629 874</u>	<u>\$1 618 983</u>	165 320
Less allowance for doubtful accounts				<u>50 400</u>
Ad Valorem Taxes receivable - net				<u><u>\$114 920</u></u>

Reconciliation with revenue:

Ad valorem taxes - General Fund	\$1 628 136
Discounts allowed	2 905
Releases	3 632
Penalties and interest collected	(16 038)
Taxes written off	<u>348</u>
	<u><u>\$1 618 983</u></u>

TOWN OF FOREST CITY, NORTH CAROLINA

Analysis of Current Tax Levy

Town-Wide Levy

For the Fiscal Year Ended June 30, 2012

	<u>Property Valuation</u>	<u>Rate</u>	<u>Levy</u>		
			<u>Total Levy</u>	<u>Other Property</u>	<u>Motor Vehicles</u>
Original levy:					
Property taxed at current year's rate	\$562 025 517	.29	\$1 629 874	\$1 525 248	\$104 626
Uncollected taxes at June 30, 2012			79 671	61 268	18 403
Current year's taxes collected and credited			\$1 550 203	\$1 463 980	\$86 223
Current levy collection percentage			95.11%	95.98%	82.41%

TOWN OF FOREST CITY, NORTH CAROLINA

COMPLIANCE SECTION

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

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

I have audited the financial statements of the governmental activities, the business-type activities and each fund of the Town of Forest City, North Carolina as of and for the year ended June 30, 2012, which collectively comprise Forest City's basic financial statements and have issued my report thereon dated October 31, 2012. I did not audit the financial statements of the Forest City ABC Board. Those financial statements were audited by another auditor whose report thereon has been furnished to me and my opinion, insofar as it relates to the amounts included for the Town of Forest City ABC Board, is based solely on the report of the other auditor. I conducted my 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

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

My consideration of the internal control over financial reporting was for 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Forest City's financial statements are free of material misstatement, I 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 my audit and, accordingly, I do not express such an opinion. The results of my tests did not disclose any 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, others within the entity, members of Town Council, the North Carolina Department of the State Treasurer, 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.

A handwritten signature in blue ink, appearing to read "D. H. Smith", is written over the text of the report.

October 31, 2012