

TOWN OF FOREST CITY, NORTH CAROLINA

Financial Statements
(With Supplementary Information)

June 30, 2016

TOWN OFFICIALS

MAYOR

Dennis L. Tarlton (to May 20, 2016)

COMMISSIONERS

Dee Dee Bright, Mayor Pro-Tem

Justin Conner (From 12/7/2015)

David Eaker (To 12/7/2015)

Steve Holland

Chris Lee

Shawn Moore

OFFICERS

John Condrey, City Manager

Roxanne Stiles, Finance Director

Emily Sain, City Clerk

TOWN OF FOREST CITY, NORTH CAROLINA
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June 30, 2016

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Independent Auditor's Report

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

Report on the Financial Statements

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, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I did not audit the financial statements of the Town of Forest City ABC Board. Those statements were audited by another auditor whose report 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. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town of Forest City ABC Board were not audited in accordance with *Government Auditing Standards*.

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

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, based on my audit and the report of the other auditors, 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, 2016 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, pages A-K, the Law Enforcement Officers' Special Separation Allowance's, Schedules of Funding Progress and Schedules of Employer Contributions, on Exhibit I, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on Exhibits II and III, respectively, and the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability, on Exhibit IV, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on this information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

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

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

America. In my opinion, based on my audit, the procedures performed as described above, the individual fund statements, budgetary schedules, and other schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required By Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 10, 2016 on my consideration of the Town of Forest City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of the report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Forest City's internal control over financial reporting and compliance.

A handwritten signature in black ink, appearing to read "William A. Scott". The signature is written in a cursive, flowing style with a large initial "W".

November 10, 2016

TOWN OF FOREST CITY, NORTH CAROLINA

MANAGEMENT'S DISCUSSION AND 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, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

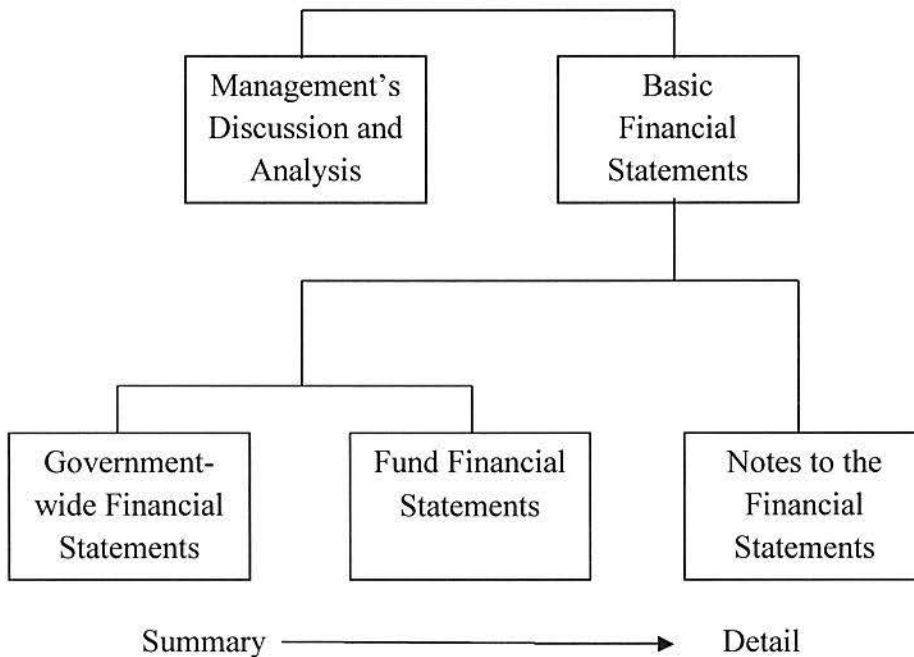
Financial Highlights

- The assets and deferred outflows of resources of the Town of Forest City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$78,477,983 (*net position*).
- The government's total net position increased by \$482,811 due to positive operations and decreased by \$342,314 as a result of a prior year adjustment.
- As of the close of the current fiscal year, the Town of Forest City's governmental funds reported combined ending fund balances of \$6,153,190 with a net decrease of \$352,906 in fund balance. Approximately 33.73 percent of this total amount, or \$2,075,174, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,078,016, or 34.32 percent of the total General Fund expenditures for the year.
- The Town of Forest City's total debt increased by \$504,838 during the current fiscal year. The key factors in this increase were (1) pension obligations increased by \$485,024, (2) debt was issued in the amount of \$445,155 to finance equipment purchased and improvements, (3) payments totaled approximately \$425,000.

Overview of the Financial Statements

This discussion and analysis are 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 the Annual Financial Report
Figure 1



Basic Financial Statements

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

The next statements (Exhibits 3 through 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 statements, and 3) the proprietary fund statements.

Management's Discussion and Analysis Town of Forest City

The next section of the basic financial statements is the **Notes to the Financial Statements**. The 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 position and how it has changed. Net position is the difference between the Town's total assets plus deferred outflows of resources and total liabilities plus deferred inflows of resources. Measuring net position 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, sales taxes, utility franchise revenue, and state grant 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 the Town exercises control over the Board by appointing its members and the Board is required to distribute its profits to the Town.

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

Fund Financial Statements

The fund financial statements (see Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Forest City, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town 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

Management's Discussion and Analysis
Town of Forest City

year. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is part of the fund financial statements.

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. The Town of Forest City uses enterprise funds to account for its water and sewer activity and for its electric operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position 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 comprise the last section of the basic financial statements.

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 after the notes to the financial statements in this report.

Management's Discussion and Analysis
Town of Forest City

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, 2016 and June 30, 2015 are in compliance with generally accepted accounting principles (GAAP). 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.

Town of Forest City's Net Position
Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Current assets	\$ 6,540,133	\$ 6,943,679	\$ 15,256,746	\$ 13,400,893	\$ 21,796,879	\$ 20,344,572
Restricted Assets						
Cash and cash equivalents	224,615	195,421	601,173	325,129	825,788	520,550
Capital assets - net	16,559,944	16,247,741	43,488,979	45,048,715	60,048,923	61,296,456
Other assets						
Net pension asset	-	367,326	-	232,978	-	600,304
Due from component unit	35,913	66,115	-	-	35,913	66,115
Industrial development loan	-	-	617,227	730,716	617,227	730,716
Deferred outflows of resources	305,651	500,149	77,187	198,571	382,838	698,720
Total assets and deferred outflows of resources	23,666,256	24,320,431	60,041,312	59,937,002	83,707,568	84,257,433
Long-term liabilities outstanding	2,061,467	1,898,103	952,738	611,263	3,014,205	2,509,366
Other liabilities	687,964	713,848	1,274,780	1,230,176	1,962,744	1,944,024
Deferred inflows of resources	32,966	897,391	219,670	569,166	252,636	1,466,557
Total liabilities and deferred inflows of resources	2,782,397	3,509,342	2,447,188	2,410,605	5,229,585	5,919,947
Net position:						
Net investment in capital assets	15,212,266	14,964,446	42,614,880	44,437,452	57,827,146	59,401,898
Restricted	1,035,313	1,023,802	-	-	1,035,313	1,023,802
Unrestricted	4,636,280	4,822,841	14,979,244	13,088,945	19,615,524	17,911,786
Total net position	\$ 20,883,859	\$ 20,811,089	\$ 57,594,124	\$ 57,526,397	\$ 78,477,983	\$ 78,337,486

Management's Discussion and Analysis
Town of Forest City

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Forest City exceeded liabilities and deferred inflows by \$78,477,983 as of June 30, 2016. The Town's net position increased by \$140,497 for the fiscal year ended June 30, 2016. The largest portion of Net Position (73.69%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery and equipment) which totals \$57,827,146. 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 net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$1,035,313, represents resources which are subject to external restrictions as to how they may be used. The remaining balance of \$19,615,524 is unrestricted. With the implementation of GASB Statement 68 in prior year, the Town has allocated its proportionate share of the Local Government Employees' Retirement System's net pension liability, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record additional effects of the new reporting guidance decreased beginning net position by \$342,314. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town's management.

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

- Higher than anticipated property tax collections due to an increase in business personal property values,
- Electric utility franchise tax receipts higher than anticipated due mainly to the increase in electric usage at Facebook,
- The continued cost saving efforts utilized by Town department heads which resulted in actual expenditures being much less than the budget in many areas.

Management's Discussion and Analysis
Town of Forest City

Town of Forest City's Changes in Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program Revenues:						
Charges for Services	\$ 1,468,710	\$ 1,464,762	\$ 16,742,140	\$ 17,011,477	\$ 18,210,850	\$ 18,476,239
Operating Grants and Contributions	429,756	296,796	-	-	429,756	296,796
Capital Grants and Contributions	-	108,953	-	8,783	-	117,736
General Revenue:						
Property Taxes	3,412,928	3,402,017	-	-	3,412,928	3,402,017
Other Taxes	998,703	877,636	-	-	998,703	877,636
Unrestricted Intergovernmental	1,361,482	1,310,202	-	-	1,361,482	1,310,202
Unrestricted Investment earnings	11,954	32,310	25,305	51,069	37,259	83,379
Gain (Loss) on Sale of Capital Assets	7,803	5,818	12,950	(7,901)	20,753	(2,083)
Miscellaneous	40,182	15,215	-	(964)	40,182	14,251
Total Revenues	7,731,518	7,513,709	16,780,395	17,062,464	24,511,913	24,576,173
Expenses:						
General Government	3,447,042	3,161,694	-	-	3,447,042	3,161,694
Public Safety	3,876,788	3,667,586	-	-	3,876,788	3,667,586
Transportation	1,180,105	1,287,396	-	-	1,180,105	1,287,396
Environmental Protection	1,091,740	1,042,777	-	-	1,091,740	1,042,777
Culture and Recreation	1,512,964	1,448,265	-	-	1,512,964	1,448,265
Cemetery	17,012	16,261	-	-	17,012	16,261
Water and Sewer	-	-	4,833,946	4,665,773	4,833,946	4,665,773
Electric	-	-	8,069,505	8,123,558	8,069,505	8,123,558
Total Expenses	11,125,651	10,623,979	12,903,451	12,789,331	24,029,102	23,413,310
Total before transfers	(3,394,133)	(3,110,270)	3,876,944	4,273,133	482,811	1,162,863
Transfers	3,676,361	3,913,052	(3,676,361)	(3,913,052)	-	-
Increase (Decrease) in Net Position	282,228	802,782	200,583	360,081	482,811	1,162,863
Net Position July 1 as previously stated	20,811,089	20,515,860	57,526,397	57,488,234	78,337,486	78,004,094
As Restated	20,601,631	20,008,307	57,393,541	57,166,316	77,995,172	77,174,623
Net Position June 30	\$ 20,883,859	\$ 20,811,089	\$ 57,594,124	\$ 57,526,397	\$ 78,477,983	\$ 78,337,486

Management's Discussion and Analysis
Town of Forest City

Governmental activities: Governmental activities increased the Town's net position by \$72,770, accounting for the total growth in the net position of the Town of Forest City. The increase in net position in the governmental activities is mainly attributable to higher than anticipated revenues due to conservative revenue estimates, especially in the area of property taxes and electric franchise utility tax, and a concerted effort to control and manage expenditures resulting in expenditures being much less than budget in some areas.

Business-type activities: Business-type activities increased the Town of Forest City's net position by \$67,727 after funding transfers totaling \$3,676,361.

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 \$5,109,713, and total fund balance was \$6,153,190. As of June 30, 2016, the Town has an available balance of 43% 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.

Actual revenues are generally higher than budget due to the use of conservative revenue estimation. Expenditures tend to be lower than budget. For the fiscal year ended June 30, 2016, revenues were \$348,978 more than the budgeted amounts. Expenditures were \$555,370 less than budgeted amounts and the Town was able to comply with its budgetary requirements.

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 position of the Water and Sewer Fund increased \$771,070 from the prior year to a total of \$7,572,326 at June 30, 2016. Overall net position of the Water and Sewer Fund decreased \$721,149. Unrestricted net position of the Electric Fund increased \$1,119,229 from the prior year to a total of \$7,406,918 as of June 30, 2016.

Management's Discussion and Analysis
Town of Forest City

Overall net position of the Electric Fund increased \$788,876. 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 Asset and Debt Administration

Capital Assets – The Town of Forest City's investment in capital assets for its governmental and business-type activities as of June 30, 2016 totals \$60,048,923 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles.

Major capital asset transactions during the year include the following:

- The replacement of Town network system.
- The completion of addition to Garage building.
- The purchase of a rescue response vehicle for the Fire Department.
- The purchase of 4 vehicles for the Street, Water, and Sewer Departments.
- The purchase of a railroad corridor that goes through downtown.

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

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Non-Depreciable	\$ 7,440,280	\$ 7,042,077	\$ 293,597	\$ 293,597	\$ 7,733,877	\$ 7,335,674
Plant and Lines	-	-	41,573,642	43,179,899	41,573,642	43,179,899
Buildings	6,137,636	6,228,427	-	-	6,137,636	6,228,427
Equipment	1,394,881	1,419,771	1,621,740	1,575,219	3,016,621	2,994,990
Infrastructure	770,145	792,486	-	-	770,145	792,486
Vehicles	817,002	764,980	-	-	817,002	764,980
Total	<u>\$ 16,559,944</u>	<u>\$ 16,247,741</u>	<u>\$ 43,488,979</u>	<u>\$ 45,048,715</u>	<u>\$ 60,048,923</u>	<u>\$ 61,296,456</u>

Management's Discussion and Analysis
 Town of Forest City

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

Long-term Debt – As of June 30, 2016, the Town of Forest City had no bonded debt outstanding. The Town's outstanding debt consisted of an installment loan incurred in constructing the McNair Field baseball stadium (\$1,111,111), installment loans for equipment and improvements (\$675,000), an interest free 20 year loan from the North Carolina Department of Environmental and Natural Resources for a sewer line rehabilitation project (\$435,658), and net pension obligation (\$792,428). During the current fiscal year, long-term debt increased by \$504,838 of which \$485,024 relates to pension deferrals and \$445,155 represents installment loans issued.

Town of Forest City Outstanding Debt
Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2016	2015	2016	2015	2016	2015
Installment Notes	\$ 1,347,678	\$ 1,590,700	\$ 438,441	\$ 151,402	\$ 1,786,119	\$ 1,742,102
NCDENR Loan	-	-	435,658	459,861	435,658	459,861
Net Pension Obligation	713,789	307,404	78,639	-	792,428	307,404
Total	\$ 2,061,467	\$ 1,898,104	\$ 952,738	\$ 611,263	\$ 3,014,205	\$ 2,509,367

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 \$95,000,000.

Additional information regarding the Town of Forest City's long-term debt can be found in the Long-Term Obligations Note included in the Basic Financial Statements.

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities - Property taxes remain at \$.29/\$100 for fiscal year 2016-2017. An increase is expected in property tax revenue mainly due to new construction that has occurred at Facebook. In addition, an increase in sales tax is projected which is largely attributable to the positive impact of Facebook's property value (based on the County's use of ad valorem levy as the method of distributing sales tax). The current revenue is adequate to finance programs currently in place.

Budgeted expenditures in the General Fund are expected to increase approximately 2%, or \$175,000, as compared to fiscal year 2015-2016.

Business-type Activities –Water and sewer revenues in the Town are expected to increase slightly due to increases in commercial sales. Rates for electricity may be adjusted during the year to pass on rate changes charged to the Town by our wholesale energy provider – Duke Energy.

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 Roxanne Stiles, Finance Director, Town of Forest City, 128 N. Powell Street, Forest City, North Carolina 28043.

TOWN OF FOREST CITY, NORTH CAROLINA

BASIC FINANCIAL STATEMENTS

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Net Position

June 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 5 454 960	\$12 475 047	\$17 930 007	\$447 006
Taxes receivable - net	114 154		114 154	
Accrued interest on taxes receivable	19 800		19 800	
Accounts receivable	168 270	2 377 028	2 545 298	
Due from component unit	58 118		58 118	
Other receivables	5 748	375 460	381 208	
Due from other governments	710 919	29 211	740 130	
Inventories	8 164		8 164	167 020
Prepaid items				6 193
Restricted assets:				
Cash	224 615	601 173	825 788	
	<u>6 764 748</u>	<u>15 857 919</u>	<u>22 622 667</u>	<u>620 219</u>
Noncurrent assets:				
Capital assets:				
Land and non-depreciable improvements	7 440 280	293 597	7 733 877	50 000
Other - net of depreciation	9 119 664	43 195 382	52 315 046	185 396
	<u>16 559 944</u>	<u>43 488 979</u>	<u>60 048 923</u>	<u>235 396</u>
Due from component unit	35 913		35 913	
Industrial development loan		617 227	617 227	
	<u>16 595 857</u>	<u>44 106 206</u>	<u>60 702 063</u>	<u>-</u>
Total assets	<u>23 360 605</u>	<u>59 964 125</u>	<u>83 324 730</u>	<u>855 615</u>
Deferred Outflows of Resources				
Pension deferrals	305 651	77 187	382 838	6 297
	<u>305 651</u>	<u>77 187</u>	<u>382 838</u>	<u>6 297</u>
Liabilities				
Current liabilities:				
Accounts payable	345 204	807 369	1 152 573	168 968
Due primary government				58 118
Current portion - long term debt	295 368	137 644	433 012	
Compensated absences	342 760	132 204	474 964	
Payable from restricted assets:				
Customer deposits		335 207	335 207	
	<u>983 332</u>	<u>1 412 424</u>	<u>2 395 756</u>	<u>227 086</u>
Long-term liabilities:				
Net pension liability	390 037	78 639	468 676	5 161
Due primary government				35 913
Long-term debt	1 376 062	736 455	2 112 517	
Total liabilities	<u>2 749 431</u>	<u>2 227 518</u>	<u>4 976 949</u>	<u>268 160</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Net Position

June 30, 2016

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Deferred Inflow of Resources				
Prepaid taxes	\$ 43	\$	\$ 43	\$
Pension deferrals	32 923	219 670	252 593	2 682
	<u>32 966</u>	<u>219 670</u>	<u>252 636</u>	<u>2 682</u>
Net Position				
Net invested in capital assets	15 212 266	42 614 880	57 827 146	199 483
Restricted for:				
Stabilization by State Statute	810 698		810 698	
Other	224 615		224 615	59 530
Unrestricted	<u>4 636 280</u>	<u>14 979 244</u>	<u>19 615 524</u>	<u>332 057</u>
Total net position	<u>\$20 883 859</u>	<u>\$57 594 124</u>	<u>\$78 477 983</u>	<u>\$591 070</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, 2016

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government Governmental Activities	Business-Type Activities	Total	Component Unit
Primary Government:								
Governmental activities:								
General government								
government	\$ 3 447 042	\$ 69 754	\$137 100	\$	\$(3 240 188)	\$	\$(3 240 188)	\$
Public safety	3 876 788	50 809	42 782		(3 783 197)		(3 783 197)	
Transportation	1 180 105		249 874		(930 231)		(930 231)	
Environmental protection	1 091 740	1 030 365			(61 375)		(61 375)	
Cultural and recreation	1 512 964	299 732			(1 213 232)		(1 213 232)	
Cemetery	17 012	18 050			1 038		1 038	
Total governmental activities	<u>11 125 651</u>	<u>1 468 710</u>	<u>429 756</u>	<u>-</u>	<u>(9 227 185)</u>	<u>-</u>	<u>(9 227 185)</u>	
Business-type activities:								
Electric								
	8 069 505	11 877 178				3 807 673	3 807 673	
Water and sewer								
	<u>4 833 946</u>	<u>4 864 962</u>			<u>-</u>	<u>31 016</u>	<u>31 016</u>	
Total primary government	<u>\$24 029 102</u>	<u>\$18 210 850</u>	<u>\$429 756</u>	<u>\$ -</u>	<u>(9 227 185)</u>	<u>3 838 689</u>	<u>(5 388 496)</u>	
Component Unit:								
ABC Board	<u>\$ 1 847 344</u>	<u>\$ 2 014 290</u>	<u>\$ -</u>	<u>\$ -</u>				<u>\$ 166 946</u>
General revenues:								
Taxes:								
Property taxes								
					3 412 928		3 412 928	
Other taxes								
					998 703		998 703	
Unrestricted intergovernmental								
					1 361 482		1 361 482	
Unrestricted investment earnings								
					11 954	25 305	37 259	1 389
Gain (loss) on sale of capital assets								
					7 803	12 950	20 753	
Miscellaneous								
					<u>40 182</u>		<u>40 182</u>	
Total general revenues not including transfers					5 833 052	38 255	5 871 307	1 389

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, 2016

Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
				Governmental Activities	Business-Type Activities	Total	
Transfers				\$ 3 676 361	\$(3 676 361)	\$ -	\$(120 402)
Total general revenues and transfers				9 509 413	(3 638 106)	5 871 307	(119 013)
Change in net position				282 228	200 583	482 811	47 933
Net position - beginning:							
As previously reported				20 811 089	57 526 397	78 337 486	533 953
Restated for deferred pension costs				(209 458)	(132 856)	(342 314)	9 184
				20 601 631	57 393 541	77 995 172	543 137
Net position - ending				\$20 883 859	\$57 594 124	\$78 477 983	\$ 591 070

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

TOWN OF FOREST CITY, NORTH CAROLINA
Balance Sheet
Governmental Fund - General Fund
June 30, 2016

Assets

Cash and cash equivalents	\$5 454 960	
Restricted cash	224 615	
Receivables:		
Taxes	114 154	
Accounts	168 270	
Other	5 748	
Due from other governments	710 919	
Inventories	8 164	
Component unit: Note receivable	35 913	
Distributions	<u>58 118</u>	<u>\$ 6 780 861</u>

Liabilities

Accounts payable and accrued liabilities		345 204
--	--	---------

Deferred Inflows of Resources

Property tax receivable	\$ 114 154	
Accounts receivable	168 270	
Prepaid taxes	<u>43</u>	<u>282 467</u>

Fund Balances:

Non spendable - inventories	8 164	
Restricted:		
Stabilization by State Statute	810 698	
Streets	224 615	
Committed - Downtown development	114 409	
Assigned - Subsequent year expenditures	917 288	
Unassigned	<u>4 078 016</u>	<u>\$ 6 153 190</u>

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in fund statements	\$16 559 944
Net pension liability	(390 037)
Pension plan contributions in the current fiscal year are deferred outflow of resources on the Statement on Net Position	272 609
Pension related deferrals	(323 633)
Other long-term assets (accrued interest receivable on taxes) are not available to pay current period expenditures and therefore are deferred	19 800
Liabilities for earned revenues considered deferred inflows of resources in fund statements	282 424

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

TOWN OF FOREST CITY, NORTH CAROLINA
Reconciliation of the Governmental Funds Balance
Sheet to the Statement of Net Position

Some liabilities are not due and payable in the current period and are not reported in the fund statements:

Compensated absences	\$ (342 760)	
Long-term debt	<u>(1 347 678)</u>	<u>\$(1 690 438)</u>
Reconciling amount		14 730 669
Fund balance - June 30, 2016		<u>6 153 190</u>
Net position governmental activities - June 30, 2016		<u><u>\$20 883 859</u></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, 2016

Revenues:

Ad valorem taxes	\$3 414 975	
Other taxes and licenses	1 005 864	
Unrestricted intergovernmental	1 413 887	
Restricted intergovernmental	278 445	
Permits and fees	49 805	
Sales and services	1 310 314	
Investment earnings	12 323	
Miscellaneous	<u>237 332</u>	
		\$ 7 722 945

Expenditures:

Current:		
General government	3 221 003	
Public safety	3 700 307	
Transportation	1 053 599	
Environmental protection	1 091 740	
Cultural and recreation	1 362 467	
Cemetery	15 130	
Capital outlay	1 064 683	
Debt service:		
Principal	342 021	
Interest	<u>32 779</u>	
		<u>11 883 729</u>

Revenues under expenditures (4 160 784)

Other financing sources (uses):

Transfers from other funds:		
Enterprise Funds	3 676 361	
Sale of fixed assets	32 517	
Installment notes issued	<u>99 000</u>	
		<u>3 807 878</u>

Net changes in fund balance (352 906)

Fund balance:

Beginning		<u>6 506 096</u>
Ending		<u>\$ 6 153 190</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balance of Governmental Funds to Statement of Activities

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 depreciation exceeded capital outlay in the current period.

Capital outlay expenditures capitalized	\$1 064 683	\$
Depreciation for governmental assets	<u>(727 766)</u>	336 917
Pension plan contributions for the current fiscal year are not included in the Statement of Activities		272 609

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position.

New long term debt issued	(99 000)	
Principal payments on long-term debt	<u>342 021</u>	243 021

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

Tax revenues	(2 047)	
Environmental protection revenues	5 442	
Other	<u>(2 625)</u>	770

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	(26 564)	
Net pension obligation	(16 348)	
Pension expense	(150 557)	
Cost applied to gain on assets sold	<u>(24 714)</u>	<u>(218 183)</u>

Reconciling amount 635 134

Net changes in fund balance - governmental fund (352 906)

Total changes in net position of governmental activities \$ 282 228

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, 2016

	Budget		Actual	Variance With
	Original	Final		Final Budget Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 3 383 096	\$ 3 383 096	\$ 3 414 975	\$ 31 879
Other taxes and licenses	922 661	922 661	1 005 864	83 203
Unrestricted				
intergovernmental	1 245 849	1 297 872	1 413 887	116 015
Restricted intergovernmental	266 000	275 233	278 445	3 212
Permits and fees	29 500	29 500	49 805	20 305
Sales and services	1 347 100	1 356 244	1 310 314	(45 930)
Investment earnings	14 111	14 111	12 323	(1 788)
Miscellaneous	58 750	95 250	237 332	142 082
	7 267 067	7 373 967	7 722 945	348 978
Expenditures:				
Current:				
General government	2 585 080	3 313 580	3 221 003	92 577
Public safety	3 875 160	3 800 813	3 700 307	100 506
Transportation	1 263 538	1 233 438	1 053 599	179 839
Environmental protection	1 065 000	1 093 000	1 091 740	1 260
Cultural and recreation	1 499 668	1 510 997	1 362 467	148 530
Cemetery	23 830	23 830	15 130	8 700
Capital outlay	1 065 900	1 065 900	1 064 683	1 217
Debt service:				
Principal	345 360	345 360	342 021	3 339
Interest	33 117	33 117	32 779	338
Contingency	287 039	19 064		19 064
	12 043 692	12 439 099	11 883 729	555 370
Deficiency of revenues over expenditures	(4 776 625)	(5 065 132)	(4 160 784)	904 348
Other financing sources:				
Transfers from other funds	3 676 361	3 676 361	3 676 361	
Installment notes issued	99 000	99 000	99 000	
Sale of fixed assets			32 517	32 517
Fund balance appropriated	1 001 264	1 289 771		(1 289 771)
	4 776 625	5 065 132	3 807 878	(1 257 254)
Net change in fund balance	\$ -	\$ -	(352 906)	\$ (352 906)
Fund balance:				
Beginning of year			6 506 096	
End of year			\$ 6 153 190	

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Fund Net Position

Proprietary Funds

June 30, 2016

	Enterprise Funds		
	Electric Total	Water and Sewer Fund	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 5 617 929	\$ 6 857 118	\$12 475 047
accounts receivable:			
Billed - net	1 374 615	12 513	1 387 128
Unbilled	777 600	212 300	989 900
Other receivables	378 635	26 036	404 671
Restricted cash/cash equivalents	237 970	363 203	601 173
	<u>8 386 749</u>	<u>7 471 170</u>	<u>15 857 919</u>
Noncurrent assets:			
Capital assets:			
Land and other non-depreciable assets	115 715	177 882	293 597
Other capital assets, net of depreciation	3 405 688	39 789 694	43 195 382
	<u>3 521 403</u>	<u>39 967 576</u>	<u>43 488 979</u>
Industrial development loan	-	617 227	617 227
	<u>11 908 152</u>	<u>48 055 973</u>	<u>59 964 125</u>
Deferred Outflows of Resources:			
Pension deferrals	20 051	57 136	77 187
	<u>20 051</u>	<u>57 136</u>	<u>77 187</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	655 089	152 280	807 369
Current maturities - long-term debt	33 453	104 191	137 644
Compensated absences	29 515	102 689	132 204
Payable from restricted assets:			
Customer deposits	237 970	97 237	335 207
	<u>956 027</u>	<u>456 397</u>	<u>1 412 424</u>
Noncurrent liabilities:			
Long-term debt	84 978	651 477	736 455
Net pension liability	21 836	56 803	78 639
	<u>1 062 841</u>	<u>1 164 677</u>	<u>2 227 518</u>
Deferred Inflows of Resources:			
Pension deferrals	55 472	164 198	219 670
	<u>55 472</u>	<u>164 198</u>	<u>219 670</u>
Net position:			
Invested in capital assets	3 402 972	39 211 908	42 614 880
Unrestricted	7 406 918	7 572 326	14 979 244
	<u>7 406 918</u>	<u>7 572 326</u>	<u>14 979 244</u>
Total net position	\$10 809 890	\$46 784 234	\$57 594 124
	<u>\$10 809 890</u>	<u>\$46 784 234</u>	<u>\$57 594 124</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 Position

Proprietary Funds

For the Fiscal Year Ended June 30, 2016

	Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
Operating revenues:			
Charge for services	\$11 570 988	\$ 4 768 101	\$16 339 089
Late payment charges	267 027		267 027
Other operating revenue	39 163	96 861	136 024
	<u>11 877 178</u>	<u>4 864 962</u>	<u>16 742 140</u>
Operating expenses:			
Administration	406 028	563 181	969 209
Operations	1 110 947	901 673	2 012 620
Electric power purchased	6 035 825		6 035 825
Water plant		760 531	760 531
Waste treatment plants		784 442	784 442
Pump station and storage		489 437	489 437
Depreciation	514 728	1 332 617	1 847 345
	<u>8 067 528</u>	<u>4 831 881</u>	<u>12 899 409</u>
Operating income	<u>3 809 650</u>	<u>33 081</u>	<u>3 842 731</u>
Nonoperating revenues (expenses):			
Investment earnings	9 096	16 209	25 305
Sale of fixed assets	12 950		12 950
Interest paid	(1 977)	(2 065)	(4 042)
	<u>20 069</u>	<u>14 144</u>	<u>34 213</u>
Income before transfers	3 829 719	47 225	3 876 944
Transfers to other funds	<u>(3 006 294)</u>	<u>(670 067)</u>	<u>(3 676 361)</u>
Change in net position	<u>823 425</u>	<u>(622 842)</u>	<u>200 583</u>
Net position:			
Beginning as previously reported	10 021 014	47 505 383	57 526 397
Restated for deferred pension costs	<u>(34 549)</u>	<u>(98 307)</u>	<u>(132 856)</u>
Beginning as restated	<u>9 986 465</u>	<u>47 407 076</u>	<u>57 393 541</u>
Ending	<u>\$10 809 890</u>	<u>\$46 784 234</u>	<u>\$57 594 124</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, 2016

	Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$11 840 787	\$ 4 853 311	\$16 694 098
Cash paid for goods and services	(6 669 341)	(1 668 566)	(8 337 907)
Cash paid to or on behalf of employees for services	(623 924)	(1 806 178)	(2 430 102)
Other operating revenues	70 699	44 837	115 536
	<u>4 618 221</u>	<u>1 423 404</u>	<u>6 041 625</u>
Cash flows from noncapital financing activities:			
Transfers to other funds	(3 006 294)	(670 067)	(3 676 361)
Note principal collected		113 489	113 489
	<u>(3 006 294)</u>	<u>(556 578)</u>	<u>(3 562 872)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(151 404)	(136 205)	(287 609)
Fixed assets sold	12 950		12 950
Installment note proceeds		346 355	346 355
Principal paid on installment contracts	(32 971)	(50 548)	(83 519)
Interest paid on installment contracts	(1 977)	(2 065)	(4 042)
	<u>(173 402)</u>	<u>157 537</u>	<u>(15 865)</u>
Cash flows from investing activities:			
Interest on investments	9 096	16 209	25 305
Net increase in cash and cash equivalents	1 447 621	1 040 572	2 488 193
Cash and cash equivalents:			
Beginning of year - July 1	<u>4 408 278</u>	<u>6 179 749</u>	<u>10 588 027</u>
End of year - June 30	<u>\$ 5 855 899</u>	<u>\$7 220 321</u>	<u>\$13 076 220</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, 2016

	<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	\$ 3 809 650	\$ 33 081	\$ 3 842 731
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	514 728	1 332 617	1 847 345
Decrease (increase) in assets and deferred outflows:			
Accounts receivable	30 371	42 823	73 194
Other receivables	297 556	(14 455)	283 101
Decrease in net pension asset	60 571	172 407	232 978
Decrease in deferred outflows of resources - pensions	22 782	64 352	87 134
Increase (decrease) in liabilities and deferred inflows:			
Accounts payable	(39 934)	54 031	14 097
Customer deposits	7 146	2 932	10 078
Compensated absences	11 775	8 655	20 430
Increase in net pension liability	21 836	56 803	78 639
Decrease in deferred inflows of resources - pensions	<u>(118 260)</u>	<u>(329 842)</u>	<u>(448 102)</u>
Total adjustments	<u>808 571</u>	<u>1 390 323</u>	<u>2 198 894</u>
Net cash provided by operating activities	<u>\$ 4 618 221</u>	<u>\$ 1 423 404</u>	<u>\$ 6 041 625</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, 2016

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 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 position and the statement of activities display information about the primary government and its component unit. These statements include the financial activities of the overall government. 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. 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 also maintains a Parks and Recreation Fund and a Florence Mill Fund for accounting purposes. These funds have 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 operations.

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

Capital Projects Fund - The fund, when appropriate, 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 for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

(D) Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the general funds 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 and the Enterprise Fund Capital Projects Fund. The enterprise fund projects are consolidated with their respective operating fund for reporting

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional or department level, as appropriate, for all annually budgeted funds and at the functional 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.

(E) **Assets, Liabilities, Deferred Outflows/Inflows of Resources 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 NCCMT-Cash Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

The Town pools money from 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.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the services for which the deposit was collected. 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.

Town of Forest City Restricted Cash

Governmental Activities:

General Fund:

Streets		\$224 615
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Business-type Activities:

Electric Fund:

Customer deposits	\$237 970	
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Water Sewer Fund:

Customer deposits	97 237	
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Escrowed loan proceeds	<u>265 966</u>	<u>601 173</u>
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Total restricted cash		<u>\$825 788</u>
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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.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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 \$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 received prior to June 15, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 15, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historic cost. 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

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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 earned vacation and such leave is fully vested when earned. Accumulated earned vacation at June 30, 2016 amounted to \$10,633. The current portion of accumulated vacation pay is not considered to be material.

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.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has an item that meets this criterion, contributions made to the pension plan in the 2016 fiscal year. In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet the criterion for this category - prepaid taxes, property taxes receivable, and deferrals of pension expense that result from the implementation of GASB Statement 68.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

Net Position

Net position in government-wide and proprietary fund financial statements are classified as net invested in capital assets, restricted, and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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 the unexpended balance of Powell Bill funds.

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.

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 that is not already classified in restricted or committed.

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

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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.

Pensions

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

For purposes of measuring the net pension expense, information about the fiduciary net position of the Firefighters' and Rescue Squad Workers' Pension Fund (the Fund) and additions to/deductions from the Fund's fiduciary net position have been determined on the same basis as they are reported by the Fund. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

II. 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. 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 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.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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, 2016, the Town's deposits had a carrying amount of \$10,098,555 and a bank balance of \$10,386,853. Of the bank balance \$1,000,000 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 \$443,451 and the bank balance was \$458,781; all of the ABC Board's bank balance was covered by federal depository insurance. At June 30, 2016, the Town's drawer funds totaled \$3,500 and the ABC Board's totaled \$3,555.

Investments

At June 30, 2016, the Town of Forest City had \$8,653,740 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, 2016 were as follows:

	Taxes & Accrued Interest	Accounts	Due From Other Governments	Other
Governmental Activities:				
General	\$198 554	\$ 185 970	\$710 919	\$ 63 866
Allowance for doubtful accounts	<u>64 600</u>	<u>17 700</u>	<u>710 919</u>	<u>63 866</u>
	<u>\$133 954</u>	<u>\$ 168 270</u>	<u>\$710 919</u>	<u>\$ 63 866</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	\$	\$2 220 015	\$ 4 602	\$374 032
Water and sewer	<u> </u>	<u>224 913</u>	<u>24 609</u>	<u>1 428</u>
	-	2 444 928	29 211	375 460
Allowance for doubtful accounts		<u>67 900</u>		
	<u>\$ -</u>	<u>\$2 377 028</u>	<u>\$ 29 211</u>	<u>\$375 460</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	\$112 974	\$
Property taxes unremitted	35 946	
State taxes collected	515 881	
Cost reimbursements	31 595	
Services rendered	560	29 211
Payments in lieu	<u>13 963</u>	
	<u>\$710 919</u>	<u>\$ 29 211</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.

Ten payments were received during the year ended June 30, 2016. The \$50,000 premium generated by the payments is being recognized as imputed interest at the annual rate of .981%. Interest for the current year was \$5,559.

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, 2016 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	\$ 7 042 077	\$338 632	\$ -	\$ 7 380 709
Construction in process		<u>59 571</u>		<u>59 571</u>
	<u>7 042 077</u>	<u>\$398 203</u>	<u>\$ -</u>	<u>7 440 280</u>
Capital assets being depreciated:				
Equipment	\$ 4 000 676	\$218 809	\$46 000	\$ 4 173 485
Vehicles	3 538 311	236 922	21 373	3 753 860
Buildings	10 594 178	210 749		10 804 927
Infrastructure	<u>1 114 000</u>			<u>1 114 000</u>
	<u>19 247 165</u>	<u>\$666 480</u>	<u>\$67 373</u>	<u>19 846 272</u>
Less accumulated depreciation:				
Equipment	\$ 2 580 905	\$218 985	\$21 286	\$ 2 778 604
Vehicles	2 773 331	184 900	21 373	2 936 858
Buildings	4 365 751	301 540		4 667 291
Infrastructure	<u>321 514</u>	<u>22 341</u>		<u>343 855</u>
	<u>10 041 501</u>	<u>\$727 766</u>	<u>\$42 659</u>	<u>10 726 608</u>
Governmental activities capital assets - net	<u>\$16 247 741</u>			<u>\$16 559 944</u>

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

General government	\$224 793
Public safety	236 035
Transportation	133 736
Cultural and recreation	131 320
Cemetery	<u>1 882</u>
	<u>\$727 766</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	\$ 1 228 950	\$ 151 404	\$ 57 455	\$ 1 322 899
Plant and lines	<u>11 021 512</u>			<u>11 021 512</u>
	<u>12 250 462</u>	<u>\$ 151 404</u>	<u>\$ 57 455</u>	<u>12 344 411</u>
Less accumulated depreciation:				
Equipment	920 894	\$ 73 618	\$ 57 455	937 057
Plant and lines	<u>7 560 556</u>	<u>441 110</u>		<u>8 001 666</u>
	<u>8 481 450</u>	<u>\$ 514 728</u>	<u>\$ 57 455</u>	<u>8 938 723</u>
Electric Fund capital assets- net	<u>3 884 727</u>			<u>3 521 403</u>
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 177 882	\$ -	\$ -	\$ 177 882
Capital assets being depreciated:				
Equipment	\$ 4 349 360	\$ 136 205	\$ -	\$ 4 485 565
Plant and lines	<u>60 603 518</u>			<u>60 603 518</u>
	<u>64 952 878</u>	<u>\$ 136 205</u>	<u>\$ -</u>	<u>65 089 083</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	\$ 3 091 780	\$ 157 887	\$ -	\$ 3 249 667
Plant and lines	<u>20 874 992</u>	<u>1 174 730</u>	<u> </u>	<u>22 049 722</u>
	<u>23 966 772</u>	<u>\$1 332 617</u>	<u>\$ -</u>	<u>25 299 389</u>
 Water and Sewer Fund capital assets - net	 <u>41 163 988</u>			 <u>39 967 576</u>
 Business-type activities capital assets net	 <u>\$45 048 715</u>			 <u>\$43 488 979</u>

Commitments

The Primary Government has no active construction project as of June 30, 2016. At year end, the Town had no known outstanding commitments.

Discretely Presented Component Unit

Capital asset activity for the Forest City ABC Board for the period ended June 30, 2016 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	\$111 989	\$ 3 137	\$ -	115 126
Building and improvements	<u>300 000</u>	<u> </u>	<u> </u>	<u>300 000</u>
	<u>411 989</u>	<u>\$ 3 137</u>	<u>\$ -</u>	<u>415 126</u>
Less accumulated depreciation:				
Equipment	\$ 91 122	\$ 6 941	\$ -	\$ 98 063
Building and improvements	<u>121 667</u>	<u>10 000</u>	<u> </u>	<u>131 667</u>
	<u>212 789</u>	<u>\$16 941</u>	<u>\$ -</u>	<u>229 730</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

	<u>Beginning</u> <u>Balances</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending</u> <u>Balances</u>
Forest City ABC capital assets - net	\$249 200			\$235 396

(B) **Liabilities**

Payables

Payables at the government-wide level at June 30, 2016 were as follows:

	<u>Vendors</u>	<u>Salaries and</u> <u>Benefits</u>	<u>Total</u>
Governmental Activities:			
General	\$206 207	\$138 997	\$345 204
Business-Type Activities:			
Enterprise	\$750 863	\$ 56 506	\$807 369

Pension Plan Obligation and Post-Employment Obligations:

a) **Local Governmental Employees' Retirement System**

Plan Description: The Town of Forest City is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members - nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the 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 or at www.osc.nc.gov.

Benefits Provided: LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statement

years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

LGERS plan members who are LEOs are eligible to retire with full retirement benefits at age 55 with five years of creditable service as an officer, or at any age with 30 years of creditable service. LEO plan members are eligible to retire with partial retirement benefits at age 50 with 15 years of creditable service as an officer. Survivor benefits are available to eligible beneficiaries of LEO members who die while in active service or within 180 days of their last day of service and who also have either completed 20 years of creditable service regardless of age, or have completed 15 years of service as a LEO and have reached age 50, or have completed five years of creditable service as a LEO and have reached age 55, or have completed 15 years of creditable service as a LEO if killed in the line of duty. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions.

Contributions: Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Forest City employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Forest City's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.67% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Forest City were \$382,838 for the year ended June 30, 2016.

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Refunds of Contributions: Town employees who have terminated service as a contributing member of LGERS, may file an application for a refund of their contributions. By state law, refunds to members with at least five years of service include 4% interest. State law requires a 60 day waiting period after service termination before the refund may be paid. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by LGERS.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions:

At June 30, 2016, the Town reported a liability of \$468,676 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2015, the Town's proportion was .102% which was an increase of .002% from its proportion measured as of June 30, 2014 .

For the year ended June 30, 2016, the Town recognized pension expense of \$211,435. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$110 166
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments		133 431
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	8 996
Town contributions subsequent to the measurement date	<u>382 838</u>	<u>-</u>
Total	<u><u>\$382 838</u></u>	<u><u>\$252 593</u></u>

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The \$382,838 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2017	\$(158 013)
2018	(158 013)
2019	(157 836)
2020	221 269
2021	-
Thereafter	-
	<u>\$(252 593)</u>

Actuarial Assumptions: The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	4.25 to 8.55 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

The plan currently uses mortality tables that vary by age, gender, employee group (i.e. general, law enforcement officer) and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

The actuarial assumptions used in the December 31, 2014 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

Future ad hoc COLA amounts are not considered to be substantively automatic and are therefore not included in the measurement.

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple

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year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighing the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	<u>6.0%</u>	3.4%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2014 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

Discount rate: The discount rate used to measure the total liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the Town's Proportionate Share of the Net Pension Asset to Changes in the Discount Rate: The following presents the Town's proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Town's proportionate share of the net pension asset or net pension

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liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease <u>(6.25%)</u>	Discount Rate <u>(7.25%)</u>	1% Increase <u>(8.25%)</u>
Town's proportionate share of the net pension liability (asset)	\$3,268,143	\$468,676	\$(1,889,813)

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

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, 2015, the Separation Allowance's membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>32</u>
Total	<u><u>33</u></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

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accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 67 and 68:

- . contributions to the pension plan and earnings on those contributions are irrevocable
- . pension plan assets are dedicated to providing benefits to plan members
- . pension plan assets are legally protected from the creditors or employers, nonemployer contributing entities, the plan administrator, and plan members.

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

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

The annual required contribution for the current year was determined as part of the December 31, 2015 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 3.57% investment rate of return (net of administrative expenses) and (b) projected salary increases of 3.50% to 7.35% 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	\$ 68 056
Interest on net pension obligation	15 370
Adjustment to annual required contribution	<u>(27 013)</u>
Annual pension cost	56 413
Contributions made	<u>40 065</u>
Increase in net pension obligation	16 348
Net pension obligation beginning of year	<u>307 404</u>
Net pension obligation end of year	<u><u>\$323 752</u></u>

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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>
6/30/14	48 729	96.15%	294 187
6/30/15	60 070	78.00%	307 404
6/30/16	56 413	71.02%	323 752

Funded Status and Funding Progress: As of December 31, 2014, 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 \$780,051. The covered payroll (annual payroll of active employees covered by the plan) was \$1,569,111, and the ratio of the UAAL to the covered payroll was 49.71%.

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.

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

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ended June 30, 2016 were \$81,680 which consisted of \$73,180 from the Town and \$8,500 from the law enforcement officers. Effective July 1, 2015, the Town elected to match up to \$20.00 per pay period the contributions of all non-law officer employees. Contributions for the current fiscal year were \$104,886 which consisted of \$42,815 from the Town and \$62,071 from the regular employees.

d) **Firefighters' Pension Fund**

Plan Description: The State of North Carolina contributes, on behalf of the Town of Forest City to the Firefighters' 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. Management of the plan is vested in the LGERS Board of Trustees which consists of 13 members - nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives and the State Treasurer and State Superintendent, who serve as ex-officio members. The 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 Firefighters' 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.

Benefits Provided: The Fund provides retirement and survivor benefits. The present retirement benefit is \$170 per month. Plan members are eligible to receive the monthly benefit at age 55 with 20 years of creditable service as a firefighter or rescue squad worker, and have terminated duties as a firefighter or rescue squad worker. Eligible beneficiaries of members who die before beginning to receive the benefit will receive the amount paid by the members and contributions paid on the member's behalf into the plan. Eligible beneficiaries of members who die after beginning to receive benefits will be paid the amount the member contributed minus the benefits collected.

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Contributions: Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plans through appropriations. The Town does not contribute to the plan. Contribution provisions are established by General Statute 58-86 and may be amended only by the North Carolina General Assembly. For the fiscal year ending June 30, 2015, the State contributed \$13,900,000 to the plan. The Town of Forest City's proportionate share of the State's contribution is \$4,834.

Refunds of Contributions: Plan members who are no longer eligible or choose not to participate in the plan may file an application for a refund of their contributions. Refunds include the member's contributions and contributions paid by others on the member's behalf. No interest will be paid on the amount of the refund. The acceptance of a refund payment cancels the individual's right to employer contributions or any other benefit provided by the Fund.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2016, the Town reported no liability for its proportionate share of the net pension liability, as the State provides 100% pension support to the Town through its appropriations to the Fund. The total portion of the net pension liability that was associated with the Town and supported by the State was \$12,644. The net pension liability was measured as of June 30, 2015. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers. As the Town is not projected to make any future contributions to the plan, its proportionate share at June 30, 2015 and at June 30, 2014 was 0%.

For the year ended June 30, 2016, the Town recognized pension expense of \$1,012 and revenue of \$1,012 for support provided by the State. At June 30, 2016, the Town reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

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Actuarial Assumptions: The total pension liability in the December 31, 2014 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increase	Not applicable
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation

For more information regarding actuarial assumptions, including mortality tables, the actuarial experience study, the consideration of future ad hoc COLA amounts, the development of the projected long-term investment returns, and the asset allocation policy, refer to the discussion of actuarial assumptions for the LGERS plan in Section a. of this note.

Discount rate: The discount rate used to measure the total liability was 7.25%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate and that contributions from employers will be made at statutorily required rates, actuarially determined. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of the current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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

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 (Medical Plan). The Executive Administrator and the Board of Trustees of the Medical Plan establishes premium rates except as may be

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established by the General Assembly in an appropriation act. The Medical 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 Medical 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 Medical 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 Medical Plan, which establish premium rates except as may be established by the General Assembly in an appropriation 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.

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.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the Medical 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, 2016, 2015, and 2014, the Town paid all annual required contributions to the Plan for postemployment health care benefits of \$315,546, \$303,257, and \$281,000 respectively. These

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contributions represented 5.6%, 5.5%, and 5.4% 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. Since all death benefit payments are made from the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit Plan cannot be separated between the post-employment benefit amount and the other benefit amount. Contributions are determined as a percentage of monthly payroll based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers post-employment contributions to be immaterial.

Deferred Outflows/Inflows of Resources

The Town's outflows of resources is entirely composed of the current year contributions to the pension plan in the amount of \$382,838.

The Town's inflows of resources is primarily composed of pension deferrals in the amount of \$252,593.

The balance in deferred inflows of resources on the General Fund balance sheet at June 30, 2016 is composed of the following:

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
Property taxes:		
Prepaid taxes	\$	\$43
Taxes receivable-net	114 154	
Solid waste fee receivable-net	159 005	
Cemetery lots receivable	<u>9 265</u>	
	<u>\$282 424</u>	<u>\$43</u>

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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, \$11 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, except for workers compensation which is purchased through the North Carolina Interlocal Risk Management Agency, are secured through commercial insurance companies.

There have been no significant reductions in the Town's insurance coverage in the prior year; settled claims have not exceeded coverage in 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 \$100,000. The remaining employees that have access to funds are bonded under a blanket bond for \$100,000.

Long-Term Obligations

The Town of Forest City has incurred the following long-term obligations:

	<u>Total Due</u>
Commercial note issued February 15, 2008 in the amount of \$2,500,000; collateral is the Municipal Baseball Facility as partially funded by proceeds; 3.66% annual rate (reduced to 2.43% effective February 21, 2013); \$13,889 plus interest due monthly	
Due within 12 months \$ 166 666	
Due after 12 months <u>944 445</u>	\$1 111 111

Installment purchase obligation issued December 17, 2013 in accordance with G.S. 160A-20 to finance purchase of identified personal property; Original amount \$413,517 at 1.22% annual rate; collateral is equipment purchased; due \$11 704 monthly including interest.	
Due within 12 months \$ 69 973	
Due after 12 months _____	69 973

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		<u>Total Due</u>
Installment purchase obligation issued January 22, 2015 in accordance with G.S. 159-8 and 160A-20 to finance the purchase of a specific motor vehicle; original amount of \$25,000 at 1.32% annual rate for a term of 3 years; collateral is vehicle acquired with proceeds; due \$709 monthly including interest		
Due within 12 months	\$ 8 379	
Due after 12 months	<u>4 939</u>	\$ 13 318
Installment purchase obligation issued January 22, 2015 in accordance with G.S. 159-8 and 160A-20 to finance the purchase specified equipment in the General Fund and the Water Sewer Fund; original amount of \$255,000 at 1.45% annual rate for a term of 59 months; collateral is equipment purchased with proceeds; due \$4,481 monthly including interest		
Due within 12 months	\$ 51 449	
Due after 12 months	<u>131 930</u>	183 379
Installment purchase obligation issued February 16, 2016 in accordance with G.S. 160A-20 to finance Sewer plant improvement; original amount \$260,200 at 1.93% annual rate for a term of 59 months; collateral is property purchased or improved; due \$4,626 monthly including interest		
Due within 12 months	\$ 51 271	
Due after 12 months	<u>192 057</u>	243 328
Installment purchase obligation issued February 16, 2016 in accordance with G.S. 160A-20 to finance the purchase specified equipment in the General Fund and the Water Sewer Fund; original amount of \$185,155; 1.57% annual rate for a term of 36 months; collateral is equipment purchased with proceeds; due \$5,268 monthly including interest		
Due within 12 months	\$ 61 071	
Due after 12 months	<u>103 939</u>	165 010

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On May 3, 2013 the Town was approved for a loan/grant through the N.C. Department of Environmental and Natural Resources in the amount of \$974,197 to finance a sewer rehabilitation project. At the conclusion of the project (June 30, 2014), \$451,350 in principal was forgiven and the balance of \$492,847 was to be amortized by 20 annual payments starting May 30, 2015 each in the amount of \$24,642 interest free. Prior to the initial payment, an additional forgiveness in the amount of \$8,783 was granted to reduce the annual payments to \$24,203 each year for 20 years and interest free.

Due within 12 months	\$ 24 203	
Due after 12 months	<u>411 455</u>	\$ 435 658
Total due June 30, 2016		2 221 777
Due within 12 months		<u>433 012</u>
Due after 12 months		<u>\$1 788 765</u>

The Town's debt service payments for the above long-term obligations are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>\$ Total</u>
2017	\$ 433 012	\$ 34 234	467 246
2018	362 314	27 115	389 429
2019	339 020	20 324	359 344
2020	271 964	14 298	286 262
2021	223 046	9 151	232 197
Next 5 years	398 795	5 906	404 701
Next 5 years	121 016		121 016
Next 3 years	<u>72 610</u>		<u>72 610</u>
	<u>\$2 221 777</u>	<u>\$111 028</u>	<u>\$2 332 805</u>

During the year ended June 30, 2016, the following changes occurred in long-term debt obligations:

	<u>Balance</u>		<u>Balance</u>	<u>Current</u>
	<u>06/30/15</u>	<u>Increase</u>	<u>06/30/16</u>	<u>Portion</u>
Governmental:				
Commercial				
note - '08	\$1 277 778	\$	\$1 111 111	\$166 666
Installment				
notes	312 922	99 000	236 567	128 702
Net pension				
obligation				
(LEO)	307 404	16 348	323 752	

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	Balance 06/30/15	Increase	Decrease	Balance 06/30/16	Current Portion
Net pension obligation (LGERS)	\$1 898 104	390 037 \$505 385	\$342 022	390 037 \$2 061 467	\$295 368
Business-type:					
State loan	\$ 459 861	\$	\$ 24 203	\$ 435 658	\$ 24 203
Installment note	151 402	346 155	59 116	438 441	113 441
Net pension obligation (LGERS)	\$ 611 263	78 639 \$424 794	\$ 83 319	78 639 \$ 952 738	\$137 644
Component unit:					
Due Town	\$ 66 115	\$ -	\$ 30 202	\$ 35 913	\$ 32 168

The LGERS plan had a net pension liability as of June 30, 2016; however, the plan had a net pension asset at the beginning of the fiscal year.

The ABC Board's long-term debt as above consisted at June 30, 2016 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 \$32,168.

At June 30, 2016, the Town of Forest City had no bonds which were authorized as outstanding; the Town's legal debt margin was approximately \$95,000,000.

(C) Interfund Activity

Transfers to/from other funds for the year ended June 30, 2016 consist of the following:

Electric Fund to General Fund	\$2 144 475
Electric Fund to Parks and Recreation Fund	861 819
Water Sewer Fund to Parks and Recreation	670 067
	<u>\$3 676 361</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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.

(D) 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		\$6 153 190
Less: Inventories	\$ 8 164	
Stabilization by State Statute	810 698	
Streets - Powell Bill	224 615	
Appropriated fund balance in 2016 budget	917 288	
Downtown Development	<u>114 409</u>	<u>2 075 174</u>
Unassigned - available for appropriation		<u>\$4 078 016</u>

III. 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.

IV. Joint Venture

The Town and the members of the Town's fire department each appoint two members to the five-member local board of trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local board of trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums that insurers remit to the State. The State passes these moneys to the local board of the Firemen's Relief Fund. The funds are used to assist fire fighters in various ways. The Town of Forest City receives no financial benefit and has no equity interest in the joint venture, so no equity has been reflected in these financial statements at June 30, 2016. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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.

VI. **Change in Accounting Principles/Restatement**

The Town implemented Governmental Accounting Standards Board (GASB) statement 68, Accounting and Financial Reporting for Pensions (an amendment of GASB No. 27), in the fiscal year ending June 30, 2015. The implementation of the statement required the Town to record beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). During the current fiscal year, pension deferrals to June 30, 2015 were restated resulting in a prior period adjustment decrease in net position previously reported in governmental and business-type activities of \$209,458 and \$132,856 respectively.

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)
12/31/10	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
12/31/12	0	479 886	479 886	0.00	1 365 308	35.15
12/31/13	0	497 857	497 857	0.00	1 445 351	34.45
12/31/14	0	463 327	463 327	0.00	1 353 521	34.23
12/31/15	0	780 051	780 051	0.00	1 569 111	49.71

Schedule of Employer Contributions

Fiscal Year Ended June 30,	Annual Required Contributions	Percentage Contributed
2010	37 748	79.43
2011	57 366	52.27
2012	53 292	56.27
2013	56 422	60.62
2014	57 928	80.88
2015	70 213	66.73
2016	68 056	82.89

TOWN OF FOREST CITY, NORTH CAROLINA
 Town of Forest City's Proportionate Share
 of Net Pension Liability (Asset) -
 Local Government Employees' Retirement System
 Last Three Fiscal Years

	<u>2016</u> *	<u>2015</u> *	<u>2014</u> *
Forest City's proportion of the net pension liability (asset)	.1044%	.1018%	.0996%
Forest City's proportion of the net pension liability (asset)	\$ 468 676	\$(600 302)	\$1 200 562
Forest City's covered-employee payroll	\$5 523 798	\$5 205 002	\$5 093 077
Forest City's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	8.48%	(11.53%)	23.57%
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%	94.35%

* The amounts presented for each fiscal year were determined as of the prior fiscal year ending June 30.

** This will be the same percentage for all participant employers in the LGERS plan.

TOWN OF FOREST CITY, NORTH CAROLINA
Town of Forest City's Contributions -
Local Government Employees' Retirement System
Last Three Fiscal Years

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 382 838	\$ 698 720	\$ 651 941
Contributions in relation to the contractually required contribution	<u>382 838</u>	<u>698 720</u>	<u>\$ 651 941</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Forest City's covered-employee payroll	\$5 634 708	\$5 523 798	\$5 205 002
Contributions as a percentage of covered-employee payroll	6.79%	12.65%	12.53%

TOWN OF FOREST CITY, NORTH CAROLINA
Town of Forest City's Proportionate Share
of Net Pension Liability
Firefighters' and Rescue Squad Workers' Pension
Last Two Fiscal Years

	<u>2016*</u>	<u>2015*</u>
Forest City's proportionate share of the net pension liability	0.0000%	0.0000%
Forest City's proportionate share of the net pension liability	\$ -	\$ -
State's proportionate share of the net pension liability associated with Town of Forest City	<u>12 644</u>	<u>3 904</u>
Total	<u>\$ 12 644</u>	<u>\$ 3 904</u>
Forest City's covered-employee payroll	\$360 194	\$720 000
Forest City's proportionate share of pension liability as a percentage of its covered-employee payroll	3.51%	.54%
Plan fiduciary net position as a percentage of the total pension liability	91.40%	93.42%

*The amounts presented for the fiscal year ending June 30, 2016 were determined as of June 30, 2015.

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, 2016

	2016		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Ad valorem taxes:			
Current year	\$ 3 313 096	\$ 3 352 102	\$ 39 006
Prior years	55 000	50 275	(4 725)
Interest and late charges	<u>15 000</u>	<u>12 598</u>	<u>(2 402)</u>
	<u>3 383 096</u>	<u>3 414 975</u>	<u>31 879</u>
Other taxes and licenses:			
Local option sales taxes	915 000	997 968	82 968
Privilege licenses	500	735	235
Fire district tax	<u>7 161</u>	<u>7 161</u>	
	<u>922 661</u>	<u>1 005 864</u>	<u>83 203</u>
Unrestricted intergovernmental:			
Utility franchise tax	633 500	715 793	82 293
Telecommunications sales tax	102 049	115 411	13 362
Piped natural gas tax	20 800	23 490	2 690
Video programming sales tax	34 500	38 952	4 452
Court costs and fees	4 000	3 328	(672)
Beer and wine tax	30 000	32 838	2 838
Hold harmless revenue	302 000	313 554	11 554
Policing subsidies and fees	26 000	28 185	2 185
ABC profit distributions	80 000	107 240	27 240
Payments-in-lieu	13 000	13 963	963
Governor's Highway Safety Program	22 024	20 892	(1 132)
Governor's Crime Commission grant	29 999		(29 999)
Other grants		<u>241</u>	<u>241</u>
	<u>1 297 872</u>	<u>1 413 887</u>	<u>116 015</u>
Restricted intergovernmental:			
Powell Bill allocation	245 000	244 666	(334)
Controlled substance tax	4 450	7 050	2 600
Police grant - vests		1 616	1 616
On-behalf of payments-fire retirement	10 000	1 012	(8 988)
ABC allocations	4 783	13 162	8 379
State Fire Fund	6 000	6 100	100
Solid waste disposal	<u>5 000</u>	<u>4 839</u>	<u>(161)</u>
	<u>275 233</u>	<u>278 445</u>	<u>3 212</u>
Permits and fees:			
Building permits	27 500	39 769	12 269
Code enforcement fees	<u>2 000</u>	<u>10 036</u>	<u>8 036</u>
	<u>29 500</u>	<u>49 805</u>	<u>20 305</u>
Sales and services:			
Recreation department	273 744	239 882	(33 862)
Waste collection fees	1 055 000	1 024 923	(30 077)
Cemetery lots	5 000	20 675	15 675

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, 2016

	2016		
	Budget	Actual	Variance Positive (Negative)
Fire protection fees	\$ 5 000	\$ 5 085	\$ 85
Other sales and services	17 500	19 749	2 249
	1 356 244	1 310 314	(45 930)
Investment earnings	14 111	12 323	(1 788)
Miscellaneous:			
Rents	57 150	60 050	2 900
Contributions - local	36 600	173 600	137 000
Other	1 500	3 682	2 182
	95 250	237 332	142 082
Total revenues	7 373 967	7 722 945	348 978
Expenditures:			
General government:			
Governing body:			
Salaries and benefits		52 336	
Materials and supplies		2 563	
Repairs and maintenance		1 472	
Insurance		8 314	
Economic Development incentive		1 680 596	
Election expense		4 021	
Capital outlay		147 100	
Other		9 949	
	1 908 618	1 906 351	2 267
Administration:			
Salaries and benefits		371 890	
Materials and supplies		90 255	
Repairs and maintenance		79 411	
Capital outlay		293 386	
Other		79 292	
	916 287	914 234	2 053
Finance and legal:			
Salaries and benefits		216 904	
Professional fees		25 700	
Materials and supplies		8 306	
Repairs and maintenance		35 878	
Capital outlay		75 000	
Other		20 965	
	384 824	382 753	2 071

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, 2016

	2016		Variance Positive (Negative)
	Budget	Actual	
Planning and code enforcement:			
Salaries and benefits	\$	\$ 344 285	\$
Materials and supplies		7 666	
Repairs and maintenance		7 577	
Capital outlay		24 593	
Other		<u>103 365</u>	
	514 390	<u>487 486</u>	26 904
Public buildings:			
Repairs and maintenance		268 247	
Utilities		2 414	
Insurance		1 279	
Capital outlay		232	
Other		<u>8 521</u>	
	340 064	<u>280 693</u>	59 371
Debt service:			
Principal		103 296	
Interest		<u>2 890</u>	
	108 561	<u>106 186</u>	2 375
Administrative expense reimbursement	(210 203)	(210 203)	
Total general government	<u>3 962 541</u>	<u>3 867 500</u>	<u>95 041</u>
Public safety:			
Police:			
Salaries and benefits		2 203 692	
Automotive supplies and repair		75 294	
Insurance		41 572	
Uniforms		21 741	
Repairs and maintenance		49 574	
Capital outlay		54 671	
Other		<u>150 751</u>	
	2 644 596	<u>2 597 295</u>	47 301
Fire:			
Salaries and benefits		995 917	
Insurance		41 667	
Materials and supplies		24 423	
On-behalf payments		1 012	
Repairs and maintenance		32 805	
Capital outlay		198 537	
Other		<u>61 859</u>	
	1 409 717	<u>1 356 220</u>	53 497
Total public safety	<u>4 054 313</u>	<u>3 953 515</u>	<u>100 798</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, 2016

	2016		Variance Positive
	Budget	Actual	(Negative)
Transportation:			
Streets and highways:			
Salaries and benefits	\$	\$ 609 756	\$
Utilities		86 775	
Materials and supplies		56 002	
Repairs and maintenance		195 470	
Capital outlay		71 701	
Other		30 630	
	1 161 390	1 050 334	111 056
Warehouse and garage:			
Salaries and benefits	\$	\$ 168 100	\$
Repairs and maintenance		21 512	
Supplies		25 065	
Capital outlay		77 668	
Other		35 208	
Administrative expense reimbursement		(174 919)	
	222 048	152 634	69 414
Total transportation	1 383 438	1 202 968	180 470
Environmental protection:			
Supplies		7 871	
Contract services		1 070 854	
Landfill fee		13 015	
Total environmental protection	1 093 000	1 091 740	1 260
Cultural and recreational:			
Parks and recreation:			
Salaries and benefits		799 559	
Supplies		137 682	
Repairs and maintenance		107 389	
Capital outlay		121 795	
Other		176 287	
Debt service:			
Principal		238 725	
Interest		29 889	
	1 749 672	1 611 326	138 346

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, 2016

	2016		
	Budget	Actual	Variance Positive (Negative)
Library:			
Salaries and benefits		98 982	
Supplies		15 996	
Repairs and maintenance		8 586	
Other		17 986	
	153 241	141 550	11 691
Total cultural and recreational	1 902 913	1 752 876	150 037
Cemetery:			
Supplies		2 626	
Repairs and maintenance		234	
Other		12 270	
Total cemetery	23 830	15 130	8 700
Contingency	19 064	-	19 064
Total expenditures	\$12 439 099	\$11 883 729	\$ 555 370
Revenues under expenditures	(5 065 132)	(4 160 784)	904 348
Other financing sources:			
Transfers from other funds:			
Enterprise Funds	3 676 361	3 676 361	-
Sale of fixed assets		32 517	32 517
Installment notes issued	99 000	99 000	
Fund balance appropriated	1 289 771		(1 289 771)
	5 065 132	3 807 878	(1 257 254)
Revenues and other financing sources over expenditures	\$ -	(352 906)	(352 906)
Fund balance:			
Beginning of year		6 506 096	
End of year		\$ 6 153 190	

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, 2016

	2016		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Electricity sales	\$12 035 000	\$11 570 988	\$ (464 012)
Late payment penalties	240 000	267 027	27 027
Tap and connection fees	1 000	745	(255)
Reconnection and transfer fees	5 000	4 875	(125)
Cable pole fees	13 280	13 280	
Other operating revenue	20 000	20 263	263
	<u>12 314 280</u>	<u>11 877 178</u>	<u>(437 102)</u>
Nonoperating revenue:			
Interest earnings	10 000	9 096	(904)
	<u>12 324 280</u>	<u>11 886 274</u>	<u>(438 006)</u>
Expenditures:			
Administration:			
Salaries and benefits		167 483	
Credit card fees		71 068	
General administration allocation		147 849	
Other		<u>26 982</u>	
	970 002	<u>413 382</u>	556 620
Operations:			
Salaries and benefits		487 841	
Supplies		226 586	
Generator fuel		7 224	
Repairs and maintenance		323 997	
Other		<u>87 139</u>	
	2 029 927	<u>1 132 787</u>	897 140
Electric power purchased	6 500 000	<u>6 035 825</u>	464 175
Debt service:			
Principal retirement		32 971	
Interest		<u>1 977</u>	
	34 950	<u>34 948</u>	2
Capital outlay:			
Equipment	152 000	<u>151 404</u>	596

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, 2016

	<u>2016</u>		Variance
	<u>Budget</u>	<u>Actual</u>	Positive (Negative)
Contingency	\$ 18 947	\$	\$ 18 947
Total expenditures	<u>9 705 826</u>	<u>7 768 346</u>	<u>1 937 480</u>
Revenues over expenditures	<u>2 618 454</u>	<u>4 117 928</u>	<u>1 499 474</u>
Other financing sources (uses):			
Transfers to other funds:			
General Fund	(3 006 294)	(3 006 294)	
Sale of fixed assets		12 950	12 950
Fund balance appropriated	<u>387 840</u>		<u>(387 840)</u>
	<u>(2 618 454)</u>	<u>(2 993 344)</u>	<u>(374 890)</u>
Revenue under expenditures and other financing uses	<u>\$ -</u>	<u>1 124 584</u>	<u>\$1 124 584</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		151 404	
Depreciation		(514 728)	
Principal retirement		32 971	
Pension deferrals		<u>29 194</u>	
		<u>(301 159)</u>	
Change in net position		<u>\$ 823 425</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, 2016

	<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	\$1 394 493	\$1 394 493	\$ -	\$1 394 493	\$ -
Transfers to Electric Fund	<u>1 394 493</u>	<u>(252 218)</u>	<u> </u>	<u>(252 218)</u>	<u>1 142 275</u>
Other financing sources (uses)	<u>\$ -</u>	<u>\$1 142 275</u>	<u>-</u>	<u>\$1 142 275</u>	<u>\$1 142 275</u>
Fund balance:					
Beginning			<u>1 142 275</u>		
Ending			<u>\$1 142 275</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, 2016

	2016		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Water sales	\$ 3 307 200	\$ 3 342 600	\$ 35 400
Sewer charges	1 446 711	1 425 501	(21 210)
Tap and connection fees	35 000	26 600	(8 400)
Other	38 000	70 261	32 261
	<u>4 826 911</u>	<u>4 864 962</u>	<u>38 051</u>
Nonoperating revenues:			
Interest	21 560	16 209	(5 351)
	<u>4 848 471</u>	<u>4 881 171</u>	<u>32 700</u>
Expenditures:			
Administration:			
Salaries and benefits		271 999	
Supplies		43 165	
Repairs and maintenance		11 981	
General administration allocation		237 273	
Other		10 379	
	<u>624 822</u>	<u>574 797</u>	<u>50 025</u>
Water operations:			
Salaries and benefits		369 800	
Supplies		128 907	
Repairs and maintenance		21 760	
Other		35 476	
	<u>1 058 007</u>	<u>555 943</u>	<u>502 064</u>
Water plant:			
Salaries and benefits		405 937	
Supplies		127 949	
Repairs and maintenance		107 134	
Utilities		91 811	
Other		45 222	
	<u>833 230</u>	<u>778 053</u>	<u>55 177</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, 2016

	2016		Variance Positive (Negative)
	Budget	Actual	
Sewer Operations:			
Salaries and benefits	\$	\$ 191 162	\$
Supplies		15 870	
Repairs and maintenance		49 894	
Other		112 956	
	<u>580 216</u>	<u>369 882</u>	<u>210 334</u>
Waste treatment plants:			
Salaries and benefits		397 385	
Supplies		92 329	
Utilities		135 963	
Repairs and maintenance		107 571	
Other		68 604	
	<u>1 161 524</u>	<u>801 852</u>	<u>359 672</u>
Pump station and storage:			
Salaries and benefits		231 836	
Supplies		12 891	
Utilities		103 736	
Repairs and maintenance		135 170	
Other		16 139	
	<u>623 167</u>	<u>499 772</u>	<u>123 395</u>
Debt service:			
Principal		50 548	
Interest		2 065	
	<u>62 032</u>	<u>52 613</u>	<u>9 419</u>
Capital outlay:			
Water operations	35 000	34 049	951
Water plant	6 000	5 962	38
Sewer operations	37 000	36 200	800
Waste treatment plants	60 000	59 994	6
	<u>138 000</u>	<u>136 205</u>	<u>1 795</u>
Contingency	<u>45 982</u>		<u>45 982</u>
Total expenditures	<u>5 126 980</u>	<u>3 769 117</u>	<u>1 357 863</u>
Revenues over (under) expenditures	<u>(278 509</u>	<u>1 112 054</u>	<u>1 390 563</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, 2016

	<u>2016</u>		
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Other financing sources (uses):			
Transfers to other funds:			
To General Fund	\$ (670 067)	\$ (670 067)	\$
Installment notes issued	346 355	346 355	
Economic development loan principal payments	136 300	113 489	(22 811)
Fund balance appropriated	<u>465 921</u>	<u> </u>	<u>(465 921)</u>
	<u>278 509</u>	<u>(210 223)</u>	<u>(488 732)</u>
 Revenue and other sources over expenditures	 \$ -	 <u>901 831</u>	 \$ 901 831
 Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		136 205	
Loan principal received		(113 489)	
Depreciation		(1 332 617)	
Pension deferrals		81 035	
Principal retirement		50 548	
Installment notes issued		<u>(346 355)</u>	
		<u>(1 524 673)</u>	
 Change in net position		 \$ (622 842)	

TOWN OF FOREST CITY, NORTH CAROLINA

OTHER SCHEDULES

TOWN OF FOREST CITY, NORTH CAROLINA

General Fund

Schedule of Ad Valorem Taxes Receivable

June 30, 2016

Year of Levy	Uncollected Balance June 30, 2015	Additions	Collections and Credits	Uncollected Balance June 30, 2016
2015	\$ -	\$3 448 476	\$3 392 010	\$ 56 466
2014	62 506		31 612	30 894
2013	39 640		12 544	27 096
2012	19 695		3 398	16 297
2011	15 574		1 169	14 405
2010	11 215		484	10 731
2009	6 398		481	5 917
2008	7 027		333	6 694
2007	5 627		184	5 443
2006	4 881		70	4 811
2005	3 838		3 838	
	<u>\$176 401</u>	<u>\$3 448 476</u>	<u>\$3 446 123</u>	<u>178 754</u>

Less allowance for doubtful accounts 64 600

Ad Valorem Taxes receivable - net \$114 154

Reconciliation with revenue:

Ad valorem taxes - General Fund		\$3 414 975
Discounts allowed	\$ 2 516	
Releases	37 396	
Penalties and interest collected	(12 598)	
Taxes written off	<u>3 834</u>	<u>31 148</u>
		<u>\$3 446 123</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Analysis of Current Tax Levy

Town-Wide Levy

For the Fiscal Year Ended June 30, 2016

	<u>Property</u> <u>Valuation</u>	<u>Rate</u>	<u>Total</u> <u>Levy</u>	<u>Levy</u> <u>Other</u> <u>Property</u>	<u>Motor</u> <u>Vehicles</u>
Original levy:					
Property taxed at current year's rate	\$1 189 129 655	.29	\$3 448 476	\$3 321 631	\$126 845
Uncollected taxes at June 30, 2016			56 466	56 466	
Current year's taxes collected and credited			\$3 392 010	\$3 265 165	\$126 845
Current levy collection percentage			98.36%	98.30%	100%

TOWN OF FOREST CITY, NORTH CAROLINA

COMPLIANCE SECTION

Don L. Heath
Certified Public Accountant

Forest City, North Carolina 28043 • Telephone 828-245-4841

**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**

Independent Auditor's Report

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

I have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Town of Forest City, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprises the Town of Forest City's basic financial statements, and have issued my report thereon dated November 10, 2016. My report includes a reference to other auditors who audited the financial statements of the Town of Forest City ABC Board, as described in my report on the Town of Forest City's financial statements. This report does not include the results of the other auditors' testing in internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Town of Forest City ABC Board were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the Town of Forest City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 of Forest City's internal control. Accordingly, I do not express an opinion on the effectiveness of the Town of Forest City's internal control.

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

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 that might be material weaknesses or, significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and other Matters

As part of obtaining reasonable assurance about whether the Town of Forest City's financial statements are free from 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 disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

A handwritten signature in black ink, appearing to read "D. A. Smith", is written in a cursive style.

November 10, 2016