

TOWN OF FOREST CITY, NORTH CAROLINA

Financial Statements
(With Supplementary Information)

June 30, 2017

TOWN OFFICIALS

MAYOR

Steve Holland (From September 19, 2016)

COMMISSIONERS

Dee Dee Bright, Mayor Pro-Tem

Justin Conner

David Eaker (From September 19, 2016)

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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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, 2017, 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, 2017 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 Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability and Contributions, on Exhibits I and II, respectively, the Firefighters' and Rescue Squad Workers' Pension Fund's Schedule of the Proportionate Share of Net Pension Liability, on Exhibit III, the Law Enforcement Officers' Special Separation Allowance Schedules of the changes in Pension Liability - LEOSSA on Exhibit IV, and Pension Liability - LEOSSA as a Percentage of Covered Payroll, on Exhibit V, 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 9, 2017 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 cursive script, appearing to read "Ray Beatts".

November 9, 2017

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, 2017. 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.

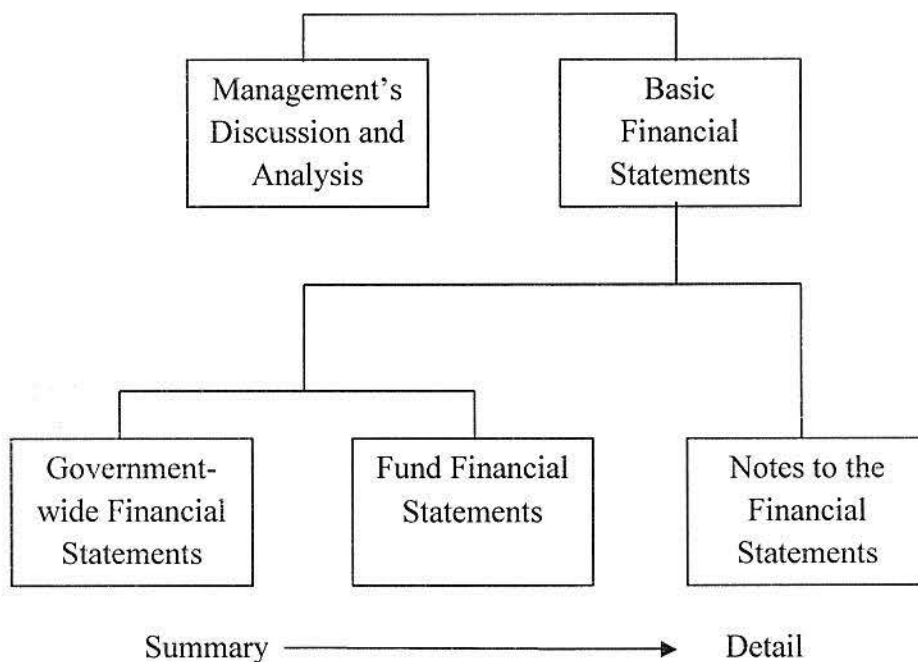
Financial Highlights

- 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 \$77,606,333 (*net position*).
- The government's total net position decreased by \$453,566 due to operations and decreased by \$418,084 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 \$6,230,675 with a net increase of \$77,485 in fund balance. Approximately 25.02 percent of this total amount, or \$1,559,171, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,671,504, or 39.74 percent of the total General Fund expenditures for the year.
- The Town of Forest City's total debt increased by \$1,722,874 during the current fiscal year. The key factors in this increase were (1) pension obligations increased by \$2,161,716, (2) payments totaled approximately \$438,800.

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 accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – The Town of Forest City has one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements financial statements. The Town of Forest City uses enterprise funds to account for its water and sewer activity and for its electric operations. These funds are 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 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, 2017 and June 30, 2016 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	
	2017	2016	2017	2016	2017	2016
Current assets	\$ 6,703,071	\$ 6,540,133	\$ 16,553,338	\$ 15,256,746	\$ 23,256,409	\$ 21,796,879
Restricted Assets						
Cash and cash equivalents	285,709	224,615	606,223	601,173	891,932	825,788
Capital assets - net	16,444,768	16,559,944	41,980,043	43,488,979	58,424,811	60,048,923
Other assets						
Net pension asset	-	-	-	-	-	-
Due from component unit	3,744	35,913	-	-	3,744	35,913
Industrial development loan	-	-	456,776	617,227	456,776	617,227
Deferred outflows of resources	1,295,630	305,651	539,594	77,187	1,835,224	382,838
Total assets and deferred outflows of resources	<u>24,732,922</u>	<u>23,666,256</u>	<u>60,135,974</u>	<u>60,041,312</u>	<u>84,868,896</u>	<u>83,707,568</u>
Long-term liabilities outstanding	3,362,175	2,061,467	1,374,904	952,738	4,737,079	3,014,205
Other liabilities	941,601	687,964	1,437,246	1,274,780	2,378,847	1,962,744
Deferred inflows of resources	111,513	32,966	35,124	219,670	146,637	252,636
Total liabilities and deferred inflows of resources	<u>4,415,289</u>	<u>2,782,397</u>	<u>2,847,274</u>	<u>2,447,188</u>	<u>7,262,563</u>	<u>5,229,585</u>
Net position:						
Net investment in capital assets	15,395,579	15,212,266	41,246,297	42,614,880	56,641,876	57,827,146
Restricted	1,057,889	1,035,313	-	-	1,057,889	1,035,313
Unrestricted	3,864,165	4,636,280	16,042,403	14,979,244	19,906,568	19,615,524
Total net position	<u>\$ 20,317,633</u>	<u>\$ 20,883,859</u>	<u>\$ 57,288,700</u>	<u>\$ 57,594,124</u>	<u>\$ 77,606,333</u>	<u>\$ 78,477,983</u>

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 \$77,606,333 as of June 30, 2017. The Town's net position decreased by \$871,650 for the fiscal year ended June 30, 2017. The largest portion of Net Position (72.99%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery and equipment) which totals \$56,641,876. 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, \$1,057,889, represents resources which are subject to external restrictions as to how they may be used. The remaining balance of \$19,906,568 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 \$418,084. 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

Capital Grants and Contributions	238,339	-	180,000	-	418,339	-
General Revenue:					-	
Property Taxes	3,395,426	3,412,928	-	-	3,395,426	3,412,928
Other Taxes	1,124,722	998,703	-	-	1,124,722	998,703
Unrestricted Intergovernmental	1,426,109	1,361,482	-	-	1,426,109	1,361,482
Unrestricted Investment earnings	14,616	11,954	40,675	25,305	55,291	37,259
Gain (Loss) on Sale of Capital Assets	21,436	7,803	-	12,950	21,436	20,753
Miscellaneous	-	40,182	-	-	-	40,182
Total Revenues	8,492,378	7,731,518	16,815,220	16,780,395	25,307,598	24,511,913
Expenses:						
General Government	3,434,541	3,447,042	-	-	3,434,541	3,447,042
Public Safety	4,171,404	3,876,788	-	-	4,171,404	3,876,788
Transportation	1,417,873	1,180,105	-	-	1,417,873	1,180,105
Environmental Protection	1,141,500	1,091,740	-	-	1,141,500	1,091,740
Culture and Recreation	1,595,957	1,512,964	-	-	1,595,957	1,512,964
Cemetery	5,390	17,012	-	-	5,390	17,012
Economic Development	348,826	-	-	-	348,826	-
Water and Sewer	-	-	4,979,995	4,833,946	4,979,995	4,833,946
Electric	-	-	8,665,678	8,069,505	8,665,678	8,069,505
Total Expenses	12,115,491	11,125,651	13,645,673	12,903,451	25,761,164	24,029,102
Total before transfers	(3,623,113)	(3,394,133)	3,169,547	3,876,944	(453,566)	482,811
Transfers	3,598,658	3,676,361	(3,598,658)	(3,676,361)	-	-
Increase (Decrease) in Net Position	(24,455)	282,228	(429,111)	200,583	(453,566)	482,811
Net Position July 1 as previously stated	20,883,859	20,811,089	57,594,124	57,526,397	78,477,983	78,337,486
As Restated	20,342,088	20,601,631	57,717,811	57,393,541	78,059,899	77,995,172
Net Position June 30	\$ 20,317,633	\$ 20,883,859	\$ 57,288,700	\$ 57,594,124	\$ 77,606,333	\$ 78,477,983

Management's Discussion and Analysis
Town of Forest City

Governmental activities: Governmental activities decreased the Town's net position by \$566,226, accounting for the total decrease in the net position of the Town of Forest City. The decrease in net position in the governmental activities is mainly attributable (\$541,771) to a prior year restatement of deferred pension costs related to the law enforcement officers' special separation allowance as required by GASB Statement 73 and to adjust LGERS pension deferral allocations (\$123,687).

Business-type activities: Business-type activities decreased the Town of Forest City's net position by \$305,424 after funding transfers totaling \$3,598,658. The LGERS pension deferral allocation reduced this decrease \$123,687.

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 \$4,671,504, and total fund balance was \$6,230,675. As of June 30, 2017, the Town has an available balance of 40% 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, 2017, revenues were \$454,278 more than the budgeted amounts. Expenditures were \$1,010,287 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 \$362,789 from the prior year to a total of \$7,935,115 at June 30, 2017. Overall net position of the Water and Sewer Fund decreased \$609,488. Unrestricted net position of the Electric Fund increased \$700,370 from the prior year to a total of \$8,107,288 as of June 30, 2017.

Management's Discussion and Analysis
 Town of Forest City

Overall net position of the Electric Fund increased \$272,596. 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, 2017 totals \$58,424,811 (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 renovation and addition to the Public Works Building.
- The completion of a water line extension on Old Caroleen Road.
- The addition of Downtown Wi-Fi to the Town network system.
- The purchase of 6 vehicles for the Police Department.
- The installation of an equalization tank at Dogwood Pump Station.

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

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Non-Depreciable	\$ 7,533,809	\$ 7,440,280	\$ 293,597	\$ 293,597	\$ 7,827,406	\$ 7,733,877
Plant and Lines	-	-	40,142,664	41,573,642	40,142,664	41,573,642
Buildings	5,948,597	6,137,636	-	-	5,948,597	6,137,636
Equipment	1,335,414	1,394,881	1,543,782	1,621,740	2,879,196	3,016,621
Infrastructure	747,865	770,145	-	-	747,865	770,145
Vehicles	879,083	817,002	-	-	879,083	817,002
Total	\$ 16,444,768	\$ 16,559,944	\$ 41,980,043	\$ 43,488,979	\$ 58,424,811	\$ 60,048,923

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, 2017, 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 (\$944,445), installment loans for equipment and improvements (\$427,035), an interest free 20 year loan from the North Carolina Department of Environmental and Natural Resources for a sewer line rehabilitation project (\$411,455), and net pension obligation (\$2,954,144). During the current fiscal year, long-term debt increased by \$1,722,874 of which \$2,161,716 relates to pension deferrals.

Town of Forest City Outstanding Debt
Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
Installment Notes	\$ 1,049,189	\$ 1,347,678	\$ 322,291	\$ 438,441	\$ 1,371,480	\$ 1,786,119
NCDENR Loan	-	-	411,455	435,658	411,455	435,658
Net Pension Obligation	2,312,986	713,789	641,158	78,639	2,954,144	792,428
Total	\$ 3,362,175	\$ 2,061,467	\$ 1,374,904	\$ 952,738	\$ 4,737,079	\$ 3,014,205

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 \$94,000,000.

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, 2018

Governmental Activities - Property taxes remain at \$.29/\$100 for fiscal year 2017-2018. 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 30%, or \$5,500,000, as compared to fiscal year 2016-2017. This increase include \$3.7 million dollars to construct a new park and amphitheater in the downtown area as well as \$750,000 for amenities to the 13 mile Thermal Belt Rail Trail funded by a PARTF grant. The total cost of the rail trail project will exceed \$4 million and includes funding by the RHI Legacy Foundation grant.

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, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 5 690 835	\$14 148 484	\$19 839 319	\$452 782
Taxes receivable - net	100 287		100 287	
Accrued interest on taxes receivable	19 900	2 371 423	2 391 323	
Accounts receivable	91 981		91 981	
Due from component unit	82 457		82 457	
Other receivables	569	14 677	15 246	
Due from other governments	702 483	18 754	721 237	
Inventories	14 559		14 559	214 120
Prepaid items				6 007
Restricted assets:				
Cash	285 709	606 223	891 932	
	<u>6 988 780</u>	<u>17 159 561</u>	<u>24 148 341</u>	<u>672 909</u>
Noncurrent assets:				
Capital assets:				
Land and non-depreciable improvements	7 533 809	293 597	7 827 406	50 000
Other - net of depreciation	8 910 959	41 686 446	50 597 405	170 750
	<u>16 444 768</u>	<u>41 980 043</u>	<u>58 424 811</u>	<u>220 750</u>
Due from component unit	3 744		3 744	
Industrial development loan		456 776	456 776	
	<u>16 448 512</u>	<u>42 436 819</u>	<u>58 885 331</u>	<u>220 750</u>
Total assets	<u>23 437 292</u>	<u>59 596 380</u>	<u>83 033 672</u>	<u>893 659</u>
Deferred Outflows of Resources				
Pension deferrals	1 295 630	539 594	1 835 224	22 093
	<u>1 295 630</u>	<u>539 594</u>	<u>1 835 224</u>	<u>22 093</u>
Liabilities				
Current liabilities:				
Accounts payable	549 372	944 659	1 494 031	230 037
Due primary government				82 457
Current portion - long term debt	222 778	139 628	362 406	
Compensated absences	392 229	146 600	538 829	
Payable from restricted assets:				
Customer deposits		345 987	345 987	
	<u>1 164 379</u>	<u>1 576 874</u>	<u>2 741 253</u>	<u>312 494</u>
Long-term liabilities:				
Pension liability - LGERS	1 521 714	641 158	2 162 872	22 921
Pension liability - LEOSSA	791 272		791 272	
Due primary government				3 744
Long-term debt	826 411	594 118	1 420 529	
Total liabilities	<u>4 303 776</u>	<u>2 812 150</u>	<u>7 115 926</u>	<u>339 159</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, 2017

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Deferred Inflow of Resources				
Prepaid taxes	\$ 309	\$	\$ 309	\$
Pension deferrals	111 204	35 124	146 328	803
	<u>111 513</u>	<u>35 124</u>	<u>146 637</u>	<u>803</u>
Net Position				
Net invested in capital assets	15 395 579	41 246 297	56 641 876	217 006
Restricted for:				
Stabilization by State Statute	789 253		789 253	
Other	268 636		268 636	63 768
Unrestricted	<u>3 864 165</u>	<u>16 042 403</u>	<u>19 906 568</u>	<u>295 016</u>
Total net position	<u>\$20 317 633</u>	<u>\$57 288 700</u>	<u>\$77 606 333</u>	<u>\$575 790</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, 2017

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Position				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Primary Government Business-Type Activities	Total	Component Unit
Primary Government:								
Governmental activities:								
General government	\$ 3 434 541	\$ 146 864	\$	\$ 238 339	\$(3 049 338)	\$	\$(3 049 338)	
Public safety	4 171 404	7 808	78 758		(4 084 838)		(4 084 838)	
Transportation	1 417 873		240 817		(1 177 056)		(1 177 056)	
Environmental protection	1 141 500	1 142 920	4 981		6 401		6 401	
Cultural and recreation	1 595 957	287 906			(1 308 051)		(1 308 051)	
Cemetery	5 390	12 850			7 460		7 460	
Economic Development	348 826		348 826		-		-	
Total governmental activities	12 115 491	1 598 348	673 382	238 339	(9 605 422)	-	(9 605 422)	
Business-type activities:								
Electric	8 665 678	11 961 140				3 295 462		
Water and sewer	4 979 995	4 633 405		180 000	-	(166 590)		
Total business-type activities	13 645 673	16 594 545	-	180 000	-	3 128 872	3 128 872	
Total primary government	\$25 761 164	\$18 192 893	\$673 382	\$ 418 339	(9 605 422)	3 128 872	(6 476 550)	
Component Unit:								
ABC Board	\$ 1 983 185	\$ 2 158 638	\$ -	\$ -				\$ 175 453
General revenues:								
Taxes:								
Property taxes					3 395 426		3 395 426	
Other taxes					1 124 722		1 124 722	
Unrestricted intergovernmental					1 426 109		1 426 109	
Unrestricted investment earnings					14 616	40 675	55 291	1 378
Gain (loss) on sale of capital assets					21 436		21 436	6 726
Total general revenues not including transfers					5 982 309	40 675	6 022 984	8 104

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, 2017

Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Unit
				Governmental Activities	Business-Type Activities	Total	
Transfers				\$ 3 598 658	\$(3 598 658)	\$ -	\$(198 837)
Total general revenues and transfers				9 580 967	(3 557 983)	6 022 984	(190 733)
Change in net position				(24 455)	(429 111)	(453 566)	(15 280)
Net position - beginning:							
As previously reported				\$20 883 859	\$57 594 124	\$78 477 983	\$ 591 070
Restated for deferred pension costs				(541 771)	123 687	(418 084)	
				20 342 088	57 717 811	78 059 899	591 070
Net position - ending				\$20 317 633	\$57 288 700	\$77 606 333	\$ 575 790

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

TOWN OF FOREST CITY, NORTH CAROLINA

Balance Sheet

Governmental Funds

June 30, 2017

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Total</u>
Assets			
Cash and cash equivalents	\$5 690 835	\$ -	\$5 690 835
Restricted cash	285 709		285 709
Receivables:			
Taxes	100 287		100 287
Accounts	91 981		91 981
Other	569		569
Due from other governments	702 483		702 483
Inventories	14 559		14 559
Component unit: Note receivable	3 744		3 744
Distributions	82 457		82 457
	<u>6 972 624</u>	<u>-</u>	<u>6 972 624</u>
Liabilities			
Accounts payable and accrued liabilities	<u>549 372</u>	<u>-</u>	<u>549 372</u>
Deferred Inflows of Resources			
Property tax receivable	100 287		100 287
Accounts receivable	91 981		91 981
Prepaid taxes	309		309
	<u>192 577</u>	<u>-</u>	<u>192 577</u>
Fund Balances:			
Non spendable - inventories	14 559		14 559
Restricted:			
Stabilization by State Statute	789 253		789 253
Streets	268 636		268 636
Committed - Downtown development	17 073		17 073
Assigned - Subsequent year expenditures	469 650		469 650
Unassigned	4 671 504		4 671 504
	<u>\$6 230 675</u>	<u>\$ -</u>	<u>\$6 230 675</u>

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
June 30, 2017

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		\$16 444 768
Pension related deferrals		1 184 426
Other long-term assets (accrued interest receivable on taxes) are not available to pay current period expenditures and therefore are deferred		19 900
Liabilities for earned revenues considered deferred inflows of resources in fund statements		192 268
Liabilities which are not financial uses are not reported in the fund statements:		
Long-term debt	\$(1 049 189)	
Pension liability - LGERS	(1 521 714)	
Pension liability - LEOSSA	(791 272)	
Compensated absences	<u>(392 229)</u>	<u>(3 754 404)</u>
Reconciling amount		14 086 958
Fund balance - June 30, 2017		<u>6 230 675</u>
Net position governmental activities - June 30, 2017		<u><u>\$20 317 633</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 Funds

For the Year Ended June 30, 2017

	<u>General Fund</u>	<u>Capital Project Fund</u>	<u>Total</u>
Revenues:			
Ad valorem taxes	\$ 3 409 193	\$	\$ 3 409 193
Other taxes and licenses	1 130 941		1 130 941
Unrestricted intergovernmental	1 588 902		1 588 902
Restricted intergovernmental	282 386	498 826	781 212
Permits and fees	123 541		123 541
Sales and services	1 491 320		1 491 320
Investment earnings	15 211		15 211
Miscellaneous	170 678		170 678
	<u>8 212 172</u>	<u>498 826</u>	<u>8 710 998</u>
Expenditures:			
Current:			
General government	3 192 022		3 192 022
Public safety	3 791 986		3 791 986
Transportation	1 267 961		1 267 961
Environmental protection	1 141 500		1 141 500
Cultural and recreation	1 425 480		1 425 480
Cemetery	3 513		3 513
Economic development		498 826	498 826
Capital outlay	606 388		606 388
Debt service:			
Principal	298 489		298 489
Interest	27 442		27 442
	<u>11 754 781</u>	<u>498 826</u>	<u>12 253 607</u>
Revenues under expenditures	<u>(3 542 609)</u>	<u>-</u>	<u>(3 542 609)</u>
Other financing sources (uses):			
Transfers from other funds:			
Enterprise Funds	3 598 658		3 598 658
Subrecipient settlement		150 000	150 000
Grant repaid		(150 000)	(150 000)
Sale of fixed assets	21 436		21 436
	<u>3 620 094</u>	<u>-</u>	<u>3 620 094</u>
Net changes in fund balance	77 485	-	77 485
Fund balance:			
Beginning	<u>6 153 190</u>	<u>-</u>	<u>6 153 190</u>
Ending	<u>\$ 6 230 675</u>	<u>\$ -</u>	<u>\$ 6 230 675</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
For the Year Ended June 30, 2017

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	\$ 600 388	\$
Depreciation for governmental assets	(721 564)	(121 176)
Contributions to the pension plan in the current fiscal year are not included in the Statement of Activities		305 226
Benefit payments and administrative expense for LEOSSA are not included in the Statement of Activities		15 390
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.		
Principal payments on long-term debt		298 489
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		
Tax revenues	(13 767)	
Environmental protection revenues	(78 214)	
Other	1 925	(90 056)
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	(49 469)	
Pension expense	(460 344)	(509 813)
Reconciling amount		(101 940)
Net changes in fund balance - governmental fund		77 485
Total changes in net position of governmental activities		\$ (24 455)

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 Funds**
 For the Year Ended June 30, 2017

	Budget		Actual	Variance With Final Budget Positive (Negative)
General Fund	Original	Final		
Revenues:				
Ad valorem taxes	\$ 3 310 429	\$ 3 310 429	\$ 3 409 193	\$ 98 764
Other taxes and licenses	974 784	974 784	1 130 941	156 157
Unrestricted				
intergovernmental	1 475 740	1 585 180	1 588 902	3 722
Restricted intergovernmental	265 700	268 581	282 386	13 805
Permits and fees	29 500	29 500	123 541	94 041
Sales and services	1 406 175	1 409 175	1 491 320	82 145
Investment earnings	9 545	9 545	15 211	5 666
Miscellaneous	54 500	170 700	170 678	(22)
	7 526 373	7 757 894	8 212 172	454 278
Expenditures:				
General government	3 180 491	3 858 147	3 500 668	357 479
Public safety	4 347 078	4 366 446	4 077 990	288 456
Transportation	1 353 425	1 467 142	1 346 666	120 476
Environmental protection	1 135 000	1 142 200	1 141 500	700
Cultural and recreation	1 805 369	1 811 869	1 684 444	127 425
Cemetery	9 350	9 350	3 513	5 837
Contingency	115 414	109 914	-	109 914
	11 946 127	12 765 068	11 754 781	1 010 287
Revenues under expenditures	(4 419 754)	(5 007 174)	(3 542 609)	1 464 565
Other financing sources:				
Transfers from other funds	3 598 658	3 598 658	3 598 658	
Sale of fixed assets			21 436	21 436
Fund balance appropriated	821 096	1 408 516		(1 408 516)
	4 419 754	5 007 174	3 620 094	(1 387 080)
Net change in fund balance	\$ -	\$ -	77 485	\$ 77 485
Fund balance:				
Beginning of year			6 153 190	
End of year			\$6 230 675	
Capital Project Fund				
Revenues:				
Restricted				
intergovernmental	\$ 600 000	\$ 600 000	\$ 498 826	\$ 101 174
Expenditures:				
Economic development	600 000	600 000	498 826	101 174
Revenue under expenditures	-	-	-	-
Other financing sources (uses):				
Subrecipient settlement	-	150 000	150 000	-
Grant repayment	-	(150 000)	(150 000)	-
	-	-	-	-
Fund balance:				
Beginning of year	-	-	-	-
End of year	\$ -	\$ -	\$ -	\$ -

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, 2017

	Enterprise Funds		
	Electric Total	Water and Sewer Fund	Total
Assets:			
Current assets:			
Cash and cash equivalents	\$ 6 965 803	\$ 7 182 681	\$14 148 484
accounts receivable:			
Billed - net	1 178 041	177 782	1 355 823
Unbilled	794 600	221 000	1 015 600
Other receivables	13 632	19 799	33 431
Restricted cash/cash equivalents	245 090	361 133	606 223
	<u>9 197 166</u>	<u>7 962 395</u>	<u>17 159 561</u>
Noncurrent assets:			
Capital assets:			
Land and other non-depreciable assets	115 715	177 882	293 597
Other capital assets, net of depreciation	2 975 929	38 710 517	41 686 446
	<u>3 091 644</u>	<u>38 888 399</u>	<u>41 980 043</u>
Industrial development loan	-	456 776	456 776
	<u>-</u>	<u>456 776</u>	<u>456 776</u>
Total assets	<u>12 288 810</u>	<u>47 307 570</u>	<u>59 596 380</u>
Deferred Outflows of Resources:			
Pension deferrals	147 006	392 588	539 594
	<u>147 006</u>	<u>392 588</u>	<u>539 594</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	771 460	173 199	944 659
Current maturities - long-term debt	33 941	105 687	139 628
Compensated absences	36 767	109 833	146 600
Payable from restricted assets:			
Customer deposits	245 090	100 897	345 987
	<u>1 087 258</u>	<u>489 616</u>	<u>1 576 874</u>
Noncurrent liabilities:			
Long-term debt	51 037	543 081	594 118
Net pension liability	174 637	466 521	641 158
	<u>1 312 932</u>	<u>1 499 218</u>	<u>2 812 150</u>
Deferred Inflows of Resources:			
Pension deferrals	8 930	26 194	35 124
	<u>8 930</u>	<u>26 194</u>	<u>35 124</u>
Net position:			
Invested in capital assets	3 006 666	38 239 631	41 246 297
Unrestricted	8 107 288	7 935 115	16 042 403
	<u>8 107 288</u>	<u>7 935 115</u>	<u>16 042 403</u>
Total net position	<u>\$11 113 954</u>	<u>\$46 174 746</u>	<u>\$57 288 700</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, 2017

	Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
Operating revenues:			
Charge for services	\$11 657 533	\$ 4 532 346	\$16 189 879
Late payment charges	255 896		255 896
Other operating revenue	47 711	101 059	148 770
	<u>11 961 140</u>	<u>4 633 405</u>	<u>16 594 545</u>
Operating expenses:			
Administration	450 310	597 807	1 048 117
Operations	1 353 471	992 907	2 346 378
Electric power purchased	6 350 825		6 350 825
Water plant		719 934	719 934
Waste treatment plants		832 261	832 261
Pump station and storage		500 938	500 938
Depreciation	509 576	1 330 939	1 840 515
	<u>8 664 182</u>	<u>4 974 786</u>	<u>13 638 968</u>
Operating income (loss)	<u>3 296 958</u>	<u>(341 381)</u>	<u>2 955 577</u>
Nonoperating revenues (expenses):			
Investment earnings	16 107	24 568	40 675
Contribution - local		180 000	180 000
Interest paid	(1 496)	(5 209)	(6 705)
	<u>14 611</u>	<u>199 359</u>	<u>213 970</u>
Income (loss) before transfers	3 311 569	(142 022)	3 169 547
Transfers to other funds	<u>(3 038 973)</u>	<u>(559 685)</u>	<u>(3 598 658)</u>
Change in net position	<u>272 596</u>	<u>(701 707)</u>	<u>(429 111)</u>
Net position:			
Beginning as previously reported	10 809 890	46 784 234	57 594 124
Restated for deferred pension costs	<u>31 468</u>	<u>92 219</u>	<u>123 687</u>
Beginning as restated	<u>10 841 358</u>	<u>46 876 453</u>	<u>57 717 811</u>
Ending	<u>\$11 113 954</u>	<u>\$46 174 746</u>	<u>\$57 288 700</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, 2017

	Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$12 028 584	\$4 408 778	\$16 437 362
Cash paid for goods and services	(6 976 103)	(1 725 715)	(8 701 818)
Cash paid to or on behalf of employees for services	(680 265)	(1 867 000)	(2 547 265)
Other operating revenues	120 409	65 968	186 377
	<u>4 492 625</u>	<u>882 031</u>	<u>5 374 656</u>
Cash flows from noncapital financing activities:			
Transfers to other funds	(3 038 973)	(559 685)	(3 598 658)
Note principal collected		160 451	160 451
	<u>(3 038 973)</u>	<u>(399 234)</u>	<u>(3 438 207)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(79 817)	(251 762)	(331 579)
Less: non cash contribution		180 000	180 000
Principal paid on installment contracts	(33 453)	(106 901)	(140 354)
Interest paid on installment contracts	(1 495)	(5 209)	(6 704)
	<u>(114 765)</u>	<u>(183 872)</u>	<u>(298 637)</u>
Cash flows from investing activities:			
Interest on investments	16 107	24 568	40 675
Net increase in cash and cash equivalents	1 354 994	323 493	1 678 487
Cash and cash equivalents:			
Beginning of year - July 1	<u>5 855 899</u>	<u>7 220 321</u>	<u>13 076 220</u>
End of year - June 30	<u>\$ 7 210 893</u>	<u>\$ 7 543 814</u>	<u>\$14 754 707</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, 2017

	<u>Enterprise Funds</u>		
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	<u>3 296 958</u>	<u>(341 381)</u>	<u>2 955 577</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	509 576	1 330 939	1 840 515
Decrease (increase) in assets and deferred outflows:			
Accounts receivable	179 573	(173 968)	5 605
Other receivables	365 003	6 237	371 240
Decrease in deferred outflows of resources - pensions	(117 834)	(311 541)	(429 375)
Increase (decrease) in liabilities and deferred inflows:			
Accounts payable	116 371	20 919	137 290
Customer deposits	7 120	3 660	10 780
Compensated absences	7 252	7 144	14 396
Increase in net pension liability	138 924	367 302	506 226
Decrease in deferred inflows of resources - pensions	<u>(10 318)</u>	<u>(27 280)</u>	<u>(37 598)</u>
Total adjustments	<u>1 195 667</u>	<u>1 223 412</u>	<u>2 419 079</u>
Net cash provided by operating activities	<u>\$ 4 492 625</u>	<u>\$ 882 031</u>	<u>\$ 5 374 656</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, 2017

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-Government 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	\$268 636	
Downtown Revitalization	<u>17 073</u>	\$285 709

Business-type Activities:

Electric Fund:

Customer deposits	\$245 090	
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Water Sewer Fund:

Customer deposits	100 897	
Escrowed loan proceeds	<u>260 236</u>	<u>606 223</u>

Total restricted cash		<u>\$891 932</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, 2017 amounted to \$14,455. 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 2017 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 property taxes, property taxes receivable, and pension deferrals.

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.

Defined Benefit Cost-Sharing Plans

For purposes of measuring the net pension liability, 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, 2017, the Town's deposits had a carrying amount of \$9,418,449 and a bank balance of \$9,898,208. Of the bank balance \$750,000 was covered by federal depository insurance and the balance was collateralized under the Pooling Method. The carrying amount of deposits of the ABC Board was \$449,227 and the bank balance was \$441,923; all of the ABC Board's bank balance was covered by federal depository insurance. At June 30, 2017, the Town's drawer funds totaled \$3,500 and the ABC Board's totaled \$3,555.

Investments

At June 30, 2017, the Town of Forest City had \$11,309,302 invested with the North Carolina Capital Management Trust's Government 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, 2017 were as follows:

	Taxes & Accrued <u>Interest</u>	<u>Accounts</u>	Due From Other <u>Governments</u>	<u>Other</u>
Governmental Activities:				
General	\$197 987	\$ 100 981	\$702 483	\$ 569
Allowance for doubtful accounts	<u>79 800</u>	<u>9 000</u>	<u>702 483</u>	<u>569</u>
	<u>\$118 187</u>	<u>\$ 91 981</u>	<u>\$702 483</u>	<u>\$ 569</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

	<u>Taxes & Accrued Interest</u>	<u>Accounts</u>	<u>Due From Other Governments</u>	<u>Other</u>
Business-Type Activities:				
Electric	\$ -	\$2 021 741	\$ 2 361	\$ 11 271
Water and sewer	<u> </u>	<u>400 582</u>	<u>16 393</u>	<u>3 406</u>
	-	2 422 323	18 754	14 677
Allowance for doubtful accounts	<u> </u>	<u>50 900</u>	<u> </u>	<u> </u>
	<u>\$ -</u>	<u>\$2 371 423</u>	<u>\$ 18 754</u>	<u>\$ 14 677</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	\$121 484	\$
Property taxes unremitted	27 574	
State taxes collected	534 897	
Cost reimbursements	2 652	
Services rendered	1 021	18 754
Payments in lieu	<u>14 855</u>	<u> </u>
	<u>\$702 483</u>	<u>\$ 18 754</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.

Fourteen payments were received during the year ended June 30, 2017. 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 \$6,216.

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, 2017 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	\$ 7 380 709	\$	\$ -	\$ 7 380 709
Construction in process	<u>59 571</u>	<u>153 100</u>	<u>59 571</u>	<u>153 100</u>
	<u>7 440 280</u>	<u>\$153 100</u>	<u>\$ 59 571</u>	<u>7 533 809</u>
Capital assets being depreciated:				
Equipment	\$ 4 173 485	\$160 109	\$	\$ 4 333 594
Vehicles	3 753 860	236 615	128 454	3 862 021
Buildings	10 804 927	116 135		10 921 062
Infrastructure	<u>1 114 000</u>	<u></u>	<u></u>	<u>1 114 000</u>
	<u>19 846 272</u>	<u>\$512 859</u>	<u>\$128 454</u>	<u>20 230 677</u>
Less accumulated depreciation:				
Equipment	\$ 2 778 604	\$219 576	\$	\$ 2 998 180
Vehicles	2 936 858	174 534	128 454	2 982 938
Buildings	4 667 291	305 174		4 972 465
Infrastructure	<u>343 855</u>	<u>22 280</u>	<u></u>	<u>366 135</u>
	<u>10 726 608</u>	<u>\$721 564</u>	<u>\$128 454</u>	<u>11 319 718</u>
Governmental activities capital assets - net	<u>\$16 559 944</u>			<u>\$16 444 768</u>

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

General government	\$235 136
Public safety	233 412
Transportation	126 325
Cultural and recreation	124 814
Cemetery	<u>1 877</u>
	<u>\$721 564</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	\$ 1 322 899	\$ 79 817	\$ -	\$ 1 402 716
Plant and lines	<u>11 021 512</u>	<u> </u>	<u> </u>	<u>11 021 512</u>
	<u>12 344 411</u>	<u>\$ 79 817</u>	<u>\$ -</u>	<u>12 424 228</u>
Less accumulated depreciation:				
Equipment	937 057	\$ 69 671	\$ -	1 006 728
Plant and lines	<u>8 001 666</u>	<u>439 905</u>	<u> </u>	<u>8 441 571</u>
	<u>8 938 723</u>	<u>\$ 509 576</u>	<u>\$ -</u>	<u>9 448 299</u>
Electric Fund capital assets-net	<u>3 521 403</u>			<u>3 091 644</u>
Water and Sewer Fund:				
Capital assets not being depreciated:				
Land	\$ 177 882	\$ -	\$ -	\$ 177 882
Capital assets being depreciated:				
Equipment	\$ 4 485 565	\$ 71 762	\$ -	\$ 4 557 327
Plant and lines	<u>60 603 518</u>	<u>180 000</u>	<u> </u>	<u>60 783 518</u>
	<u>65 089 083</u>	<u>\$ 251 762</u>	<u>\$ -</u>	<u>65 340 845</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	\$ 3 249 667	\$ 159 866	\$ -	\$ 3 409 533
Plant and lines	<u>22 049 722</u>	<u>1 171 073</u>		<u>23 220 795</u>
	<u>25 299 389</u>	<u>\$1 330 939</u>	<u>\$ -</u>	<u>26 630 328</u>
 Water and Sewer Fund capital assets - net	 <u>39 967 576</u>			 <u>38 888 399</u>
 Business-type activities capital assets net	 <u>\$43 488 979</u>			 <u>\$41 980 043</u>

Commitments

The Primary Government has no active construction project as of June 30, 2017. 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, 2017 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	\$115 126	\$ 2 252	\$ -	117 378
Building and improvements	<u>300 000</u>			<u>300 000</u>
	<u>415 126</u>	<u>\$ 2 252</u>	<u>\$ -</u>	<u>417 378</u>
 Less accumulated depreciation:				
Equipment	\$ 98 063	\$ 6 898	\$ -	\$104 961
Building and improvements	<u>131 667</u>	<u>10 000</u>		<u>141 667</u>
	<u>229 730</u>	<u>\$16 898</u>	<u>\$ -</u>	<u>246 628</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	\$235 396			\$220 750

(B) **Liabilities**

Payables

Payables at the government-wide level at June 30, 2017 were as follows:

	<u>Vendors</u>	<u>Salaries and</u> <u>Benefits</u>	<u>Total</u>
Governmental Activities:			
General	\$385 468	\$163 904	\$549 372
Business-Type Activities:			
Enterprise	\$883 970	\$ 60 689	\$944 659

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

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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 service (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, 2017, was 8.00% of compensation for law enforcement officers and 7.25% 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 \$435,264 for the year ended June 30, 2017.

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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, 2017, the Town reported a liability of \$2,162,872 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016, the Town's proportion was .102% which was a decrease of .002% from its proportion measured as of June 30, 2015 .

For the year ended June 30, 2017, the Town recognized pension expense of \$566,633. At June 30, 2017, 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	\$ 40 637	\$ 75 787
Changes of assumptions	148 137	-
Net difference between projected and actual earnings on pension plan investments	1 195 796	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	50 975
Contributions to pension plan in current year LGERS	<u>435 264</u>	<u>-</u>
	<u>\$1 819 834</u>	<u>\$126 762</u>

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The \$435,264 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, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2018	\$ 184 612
2019	184 785
2020	554 771
2021	333 640
2022	-
Thereafter	-
	<u>\$1 257 808</u>

Actuarial Assumptions: The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.75 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, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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 weighting 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, 2016 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%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	<u>6.0%</u>	4.0%
Total	<u>100%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2016 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 pension liability (LGERS) 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 Liability (LGERS) to Changes in the Discount Rate: The following presents the Town's proportionate share of the net pension liability 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 liability would be if it were calculated using a discount rate that is one percentage lower (6.25 percent) or one percentage higher (8.25 percent) than the current rate:

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	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)	\$5,133,503	\$2,162,872	\$(318,421)

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 (LEOSSA)**

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 under the age of 62 who have completed at least 30 years of creditable service or have attained age 55 and have completed five or more years of creditable service. 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, 2016, 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>33</u>

Summary of Significant Accounting Policies:

Basis of Accounting: The Town has chosen to fund the Separation Allowance on a pay as you go basis. Pension expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits are recognized when due and payable in accordance with the terms of the plan.

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The Separation Allowance has no assets accumulated in a trust that meets the criteria as outlined in GASB Statement 73.

Actuarial Assumptions: The entry age actuarial cost method was used in the December 31, 2015 valuation. The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month.

Mortality rates are based on the RP-2000 Mortality tables with adjustments for mortality improvements based on Scale AA.

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 Town paid \$35,062 as benefits came due for the reporting period.

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

At June 30, 2017, the Town reported a pension liability - LEOSA of \$791,272. The pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The pens in liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating the actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$53,612.

	<u>Deferred Outflows</u>	<u>Deferred Inflows</u>
Differences between expected and actual experiences	\$ -	\$ -
Changes of assumptions	-	19 566
Town benefit payments and plan administrative expense made subsequent to the measurement date	<u>15 390</u>	<u>-</u>
Total	<u>\$15 390</u>	<u>\$19 566</u>

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The \$15,390 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year Ended June 30:

2018	\$3 475
2019	3 475
2020	3 475
2021	3 475
2022	3 475
Thereafter	2 191

Sensitivity of the Town's pension liability - LEOSSA to changes in the discount rate. The following presents the Town's pension liability calculated using the discount rate of 3.86 percent, as well as what the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage lower (2.86 percent) or 1-percentage higher (4.86 percent) than the current rate:

	1% Decrease <u>(2.86%)</u>	Discount Rate <u>(3.86%)</u>	1% Increase <u>(4.86%)</u>
Pension liability - LEOSSA	\$873,551	\$791,272	\$716,753

**Schedule of Changes in Pension Liability
Law Enforcement Officers' Special Separation Allowance**

Beginning balance	\$780 051
Service Cost	45 100
Interest on the total pension liability	27 169
Changes of benefit terms	-
Differences between expected and actual experience in the measurement of the total pension liability	-
Changes of assumptions or other inputs	(23 041)
Benefit payments	(38 007)
Other changes	-
Ending balance of the pension liability - LEOSSA	<u>\$791 272</u>

The plan currently uses mortality tables that vary by age, and health status (i.e. disabled and healthy). The current mortality rates are based on published tables and based on studies that cover

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significant portions of the U.S. population. The healthy mortality rates also contain a provision to reflect future mortality improvements.

In preparing the report, the actuary relied on data provided by the Town (inactive data) and the Local Government Employees' Retirement System (active data).

c) **Supplemental Retirement Income Plan for Law Enforcement Officers**

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

Funding Policy: Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2017 were \$85,271 which consisted of \$77,081 from the Town and \$8,190 from the law enforcement officers. Effective July 1, 2016, the Town elected to match up to \$30.00 per pay period the contributions of all non-law officer employees. Non-law officer contributions for the current fiscal year were \$141,308 which consisted of \$62,215 from the Town and \$78,693 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

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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, by calling (919)981-5454, or at www.osc.nc.gov.

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.

Contributions: Plan members are required to contribute \$10 per month to the plan. The State, a non-employer contributor, funds the plan 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, 2016, the State contributed \$13,900,000 to the plan. The Town of Forest City's proportionate share of the State's contribution is \$4,545.

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.

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

At June 30, 2017, 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 \$11,888. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 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, 2016 and at June 30, 2015 was 0%.

For the year ended June 30, 2017, the Town recognized pension expense of \$3,488 and revenue of \$3,488 for support provided by the State. At June 30, 2017, the Town reported no deferred outflows of resources and no deferred inflows of resources related to pensions.

Actuarial Assumptions: The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.5 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

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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 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.

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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 credit 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, 2017, 2016, and 2015, the Town paid all annual required contributions to the Plan for health care benefits of \$339,230, \$315,546, and \$303,257 respectively. These contributions represented 5.8%, 5.6%, and 5.5% of covered payroll, respectively; the postemployment amount is not determined.

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

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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 has several deferred outflows of resources. Deferred outflows of resources is comprised of the following:

Contributions to pension plan in current fiscal year	\$ 435 264
Benefit payments made and administrative expenses for LEOSSA	15 390
Differences between expected and actual experience	40 637
Changes of assumptions	148 137
Net difference between expected and actual	1 195 796
Changes in proportion and differences between employer contributions and proportionate share of contributions	-
Charge on refunding	-
Total	<u>\$1 835 224</u>

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

	<u>Statement of Net Position</u>	<u>General Fund Balance Sheet</u>
Prepaid taxes	\$ 309	\$ 309
Taxes receivable	-	100 287
Accounts receivable	-	91 981
Changes in assumptions (LEOSSA)	19 566	-
Differences between expected and actual experience	75 787	-
Changes in proportion and differences between employer contributions and proportionate share of contributions	50 975	-
Total	<u>\$146 637</u>	<u>\$192 577</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	\$ 166 667
Due after 12 months	<u>777 778</u>
	\$ 944 445

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	\$ 4 939
Due after 12 months	<u>-</u>
	4 939

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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 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	\$ 52 199	
Due after 12 months	<u>79 732</u>	\$ 131 931
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	\$ 52 269	
Due after 12 months	<u>139 788</u>	192 057
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	\$ 62 129	
Due after 12 months	<u>35 980</u>	98 109
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>387 251</u>	<u>\$ 411 454</u>
Total due June 30, 2017		1 782 935
Due within 12 months		<u>362 406</u>
Due after 12 months		<u>\$1 420 529</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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>
2018	\$ 362 406	\$ 27 023	389 429
2019	333 098	20 263	353 361
2020	271 964	14 298	286 262
2021	223 046	9 151	232 197
2022	190 870	4 894	195 764
Next 5 years	232 128	1 012	233 140
Next 5 years	121 016		121 016
Next 2 years	48 407		48 407
	<u>\$1 782 935</u>	<u>\$ 76 641</u>	<u>\$1 859 576</u>

During the year ended June 30, 2017, the following changes occurred in long-term debt obligations:

	<u>Balance</u> <u>06/30/16</u>	<u>Increase</u>	<u>Decrease</u>	<u>Balance</u> <u>06/30/17</u>	<u>Current</u> <u>Portion</u>
Governmental:					
Commercial note -'08	\$1 111 111	\$	\$166 666	\$ 944 445	\$166 666
Installment notes	236 567		131 823	104 744	56 112
Pension liability (LEOSSA)	323 752	467 520		791 272	
Pension liability (LGERS)	390 037	1 131 677		1 521 714	
	<u>\$2 061 467</u>	<u>\$1 599 197</u>	<u>\$298 489</u>	<u>3 362 175</u>	<u>\$222 778</u>
Business-type:					
State loan	\$ 435 658	\$	\$ 24 203	\$ 411 455	\$ 24 203
Installment note	438 441		116 150	322 291	115 425
Net pension obligation (LGERS)	78 639	562 519		641 158	
	<u>\$ 952 738</u>	<u>\$ 562 519</u>	<u>\$140 353</u>	<u>\$1 374 904</u>	<u>\$139 628</u>
Component unit:					
Due Town	\$ 35 913	\$ -	\$ 32 169	\$ 3 744	\$ 3 744

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

The LGERS plan had a pension liability as of June 30, 2017; the plan also had a pension liability at the beginning of the fiscal year.

The ABC Board's long-term debt as above consisted at June 30, 2017 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 \$3,744.

At June 30, 2017, the Town of Forest City had no bonds which were authorized as outstanding; the Town's legal debt margin was approximately \$94,000,000.

(C) Interfund Activity

Transfers to/from other funds for the year ended June 30, 2017 consist of the following:

Electric Fund to General Fund	\$2 059 475
Electric Fund to Parks and Recreation Fund	894 559
Electric Fund to Florence Mill Fund	84 939
Water Sewer Fund to Parks and Recreation	<u>559 685</u>
	<u>\$3 598 658</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, 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		\$6 230 675
Less: Inventories	\$ 14 559	
Stabilization by State Statute	789 253	
Streets - Powell Bill	268 636	
Appropriated fund balance in 2017 budget	469 650	
Downtown Development	<u>17 073</u>	<u>1 559 171</u>
Unassigned - available for appropriation		<u>\$4 671 504</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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, 2017. 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.

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 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, in the fiscal year ending June 30, 2017. The implementation of the statement required the

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Town to record beginning total pension liability (Pension Liability - LEOSSA) and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$418,084.

The net position as previously reported was adjusted by \$123,689 to more appropriately allocate LGERS deferred pension costs between the governmental and business-type funds.

These prior year restatements are summarized as follows:

	<u>Governmental</u>	<u>Business-Type</u>
LEOSSA Deferrals	\$418 084	\$ -
LGERS Deferrals	<u>123 687</u>	<u>(123 687)</u>
	<u>\$541 771</u>	<u>\$(123 687)</u>

TOWN OF FOREST CITY, NORTH CAROLINA

REQUIRED SUPPLEMENTAL FINANCIAL DATA

TOWN OF FOREST CITY, NORTH CAROLINA

Town of Forest City's Proportionate Share

of Net Pension Liability (Asset) -

Local Government Employees' Retirement System

Last Four Fiscal Years

	<u>2017</u> *	<u>2016</u> *	<u>2015</u> *	<u>2014</u> *
Forest City's proportion of the net pension liability (asset)	.1019%	.1044%	.1018%	.0996%
Forest City's proportion of the net pension liability (asset)	\$2 162 872	\$ 468 676	\$(600 302)	\$1 200 562
Forest City's covered-employee payroll	\$5 634 708	\$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	38.38%	8.48%	(11.53%)	23.57%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	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 Four Fiscal Years

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 435 264	\$ 382 838	\$ 698 720	\$ 651 941
Contributions in relation to the contractually required contribution	<u>435 264</u>	<u>382 838</u>	<u>698 720</u>	<u>\$ 651 941</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Forest City's covered-employee payroll	\$5 844 823	\$5 634 708	\$5 523 798	\$5 205 002
Contributions as a percentage of covered-employee payroll	7.45%	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 Three Fiscal Years

	<u>2017*</u>	<u>2016*</u>	<u>2015*</u>
Forest City's proportionate share of the net pension liability	0.0000%	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>11 887</u>	<u>12 644</u>	<u>3 904</u>
Total	<u>\$ 11 887</u>	<u>\$ 12 644</u>	<u>\$ 3 904</u>
Forest City's covered-employee payroll	\$357 586	\$360 194	\$720 000
Forest City's proportionate share of pension liability as a percentage of its covered-employee payroll	3.32%	3.51%	.54%
Plan fiduciary net position as a percentage of the total pension liability	84.94%	91.40%	93.42%

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

TOWN OF FOREST CITY, NORTH CAROLINA

Schedule of Changes in Pension Liability

Law Enforcement Officers' Special Separation Allowance (LEOSSA)

June 30, 2017

	<u>2017</u>
Beginning balance	\$780 051
Service Cost	45 100
Interest on the total pension liability	27 169
Changes of benefit terms	0
Differences between expected and actual experience in the measurement of the total pension liability	0
Changes of assumptions or other inputs	(23 041)
Benefit payments	(38 007)
Other changes	<u>0</u>
	<u>\$791 272</u>

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

TOWN OF FOREST CITY, NORTH CAROLINA

Schedule of Total Pension Liability as a Percentage of Covered Payroll

Law Enforcement Officers' Special Separation Allowance (LEOSSA)

June 30, 2017

	<u>2017</u>
Total pension liability	\$ 791 272
Covered payroll	1 569 111
Total pension liability as a percentage of covered payroll	50.43%

Notes to the schedules:

The Town of Forest City has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.

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, 2017

	2017		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Ad valorem taxes:			
Current year	\$ 3 274 429	\$ 3 357 514	\$ 83 085
Prior years	30 000	39 334	9 334
Interest and late charges	6 000	12 345	6 345
	<u>3 310 429</u>	<u>3 409 193</u>	<u>98 764</u>
Other taxes and licenses:			
Local option sales taxes	968 000	1 124 077	156 077
Privilege licenses		645	645
Fire district tax	6 784	6 219	(565)
	<u>974 784</u>	<u>1 130 941</u>	<u>156 157</u>
Unrestricted intergovernmental:			
Utility franchise tax	760 900	699 008	(61 892)
Telecommunications sales tax	122 700	112 684	(10 016)
Piped natural gas tax	24 700	22 728	(1 972)
Video programming sales tax	42 100	38 669	(3 431)
Court costs and fees	3 000	3 098	98
Beer and wine tax	32 000	33 566	1 566
Hold harmless revenue	315 000	310 188	(4 812)
Policing subsidies and fees	26 000	30 256	4 256
ABC profit distributions	80 000	184 330	104 330
Payments-in-lieu	13 000	14 855	1 855
Downtown Revitalization Grant	94 340	94 340	
Governor's Crime Commission Grant	56 340	29 999	(26 341)
Other	15 100	15 181	81
	<u>1 585 180</u>	<u>1 588 902</u>	<u>3 722</u>
Restricted intergovernmental:			
Powell Bill allocation	245 000	240 222	(4 778)
Unauthorized substance tax	2 881	8 889	6 008
Police grant - vests		4 196	4 196
On-behalf of payments-fire retirement	10 000	3 488	(6 512)
ABC allocations		14 507	14 507
State Fire Fund	6 000	6 103	103
Solid waste disposal	4 700	4 981	281
	<u>268 581</u>	<u>282 386</u>	<u>13 805</u>
Permits and fees:			
Building permits	27 500	118 094	90 594
Code enforcement fees	2 000	5 447	3 447
	<u>29 500</u>	<u>123 541</u>	<u>94 041</u>
Sales and services:			
Recreation department	258 600	235 477	(23 123)
Waste collection fees	1 123 575	1 221 134	97 559
Cemetery lots	5 000	10 925	5 925

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, 2017

	2017		Variance Positive (Negative)
	Budget	Actual	
Fire protection fees	\$ 5 000	\$ 4 710	\$ (290)
Other sales and services	17 000	19 074	2 074
	<u>1 409 175</u>	<u>1 491 320</u>	<u>82 145</u>
Investment earnings	<u>9 545</u>	<u>15 211</u>	<u>5 666</u>
Miscellaneous:			
Rents	53 200	52 629	(571)
Contributions - local	116 200	114 000	(2 200)
Other	1 300	4 049	2 749
	<u>170 700</u>	<u>170 678</u>	<u>(22)</u>
Total revenues	<u>7 757 894</u>	<u>8 212 172</u>	<u>454 278</u>
Expenditures:			
General government:			
Governing body:			
Salaries and benefits		52 028	
Materials and supplies		8 474	
Repairs and maintenance		905	
Insurance		7 773	
Economic Development incentive		1 758 285	
Other		<u>13 336</u>	
	1 850 894	<u>1 840 801</u>	10 093
Administration:			
Salaries and benefits		382 734	
Materials and supplies		68 886	
Repairs and maintenance		65 615	
Capital outlay		215 721	
Other		<u>86 425</u>	
	914 019	<u>819 381</u>	94 638
Finance and legal:			
Salaries and benefits		229 910	
Professional fees		31 209	
Materials and supplies		6 447	
Repairs and maintenance		36 919	
Other		<u>13 048</u>	
	372 075	<u>317 533</u>	54 542

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, 2017

	2017		
	Budget	Actual	Variance Positive (Negative)
Planning and code enforcement:			
Salaries and benefits	\$	\$ 370 866	\$
Materials and supplies		5 797	
Repairs and maintenance		14 368	
Capital outlay		5 734	
Other		160 696	
	717 974	557 461	160 513
Public buildings:			
Repairs and maintenance		108 223	
Utilities		2 406	
Insurance		1 196	
Other		5 801	
	155 313	117 626	37 687
Debt service:			
Principal		85 384	
Interest		1 807	
	87 197	87 191	6
Administrative expense reimbursement	(239 325)	(239 325)	-
Total general government	3 858 147	3 500 668	357 479
Public safety:			
Police:			
Salaries and benefits		2 310 868	
Automotive supplies and repair		84 096	
Insurance		38 866	
Uniforms		27 337	
Repairs and maintenance		66 131	
Capital outlay		286 004	
Other		131 263	
	3 071 098	2 944 565	126 533
Fire:			
Salaries and benefits		961 061	
Insurance		40 689	
Materials and supplies		30 455	
On-behalf payments		3 488	
Repairs and maintenance		29 853	
Other		67 879	
	1 295 348	1 133 425	161 923
Total public safety	4 366 446	4 077 990	288 456

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, 2017

	2017		Variance Positive (Negative)
	Budget	Actual	
Transportation:			
Streets and highways:			
Salaries and benefits	\$	\$ 703 557	\$
Utilities		85 108	
Materials and supplies		58 266	
Repairs and maintenance		252 402	
Capital outlay		12 463	
Other		94 340	
	1 294 913	<u>1 206 136</u>	88 777
Warehouse and garage:			
Salaries and benefits	\$	\$ 176 435	\$
Repairs and maintenance		26 680	
Supplies		24 694	
Capital outlay		66 242	
Other		32 247	
Administrative expense reimbursement		(185 768)	
	<u>172 229</u>	<u>140 530</u>	<u>31 699</u>
Total transportation	<u>1 467 142</u>	<u>1 346 666</u>	<u>120 476</u>
Environmental protection:			
Supplies		7 692	
Contract services		1 118 943	
Landfill fee		14 865	
Total environmental protection	<u>1 142 200</u>	<u>1 141 500</u>	<u>700</u>
Cultural and recreational:			
Parks and recreation:			
Salaries and benefits		858 432	
Supplies		136 383	
Repairs and maintenance		112 499	
Capital outlay		20 224	
Other		171 008	
Debt service:			
Principal		213 105	
Interest		25 635	
	1 660 116	<u>1 537 286</u>	122 830

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, 2017

	2017		
	Budget	Actual	Variance Positive (Negative)
Library:			
Salaries and benefits	\$	\$ 104 737	\$
Supplies		18 511	
Repairs and maintenance		9 691	
Other		14 219	
Total cultural and recreational	151 753	147 158	4 595
	1 811 869	1 684 444	127 425
Cemetery:			
Supplies		2 309	
Repairs and maintenance		327	
Other		877	
Total cemetery	9 350	3 513	5 837
Contingency	109 914	-	109 914
Total expenditures	12 765 068	11 754 781	1 010 287
Revenues under expenditures	(5 007 174)	(3 542 609)	1 464 565
Other financing sources:			
Transfers from other funds:			
Enterprise Funds	3 598 658	3 598 658	
Sale of fixed assets		21 436	21 436
Fund balance appropriated	1 408 516		(1 408 516)
	5 007 174	3 620 094	(1 387 080)
Revenues and other financing sources over expenditures	\$ -	77 485	\$ 77 485
Fund balance:			
Beginning of year		6 153 190	
End of year		\$ 6 230 675	

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, 2017

	2017		
	Budget	Actual	Variance Positive (Negative)
Revenues:			
Operating revenues:			
Electricity sales	\$12 035 000	\$11 657 533	\$(377 467)
Late payment penalties	240 000	255 896	15 896
Tap and connection fees	1 000	2 728	1 728
Reconnection and transfer fees	5 000	6 135	1 135
Cable pole fees	13 280	12 474	(806)
Other operating revenue	20 000	26 374	6 374
	<u>12 314 280</u>	<u>11 961 140</u>	<u>(353 140)</u>
Nonoperating revenue:			
Interest earnings	7 000	16 107	9 107
	<u>7 000</u>	<u>16 107</u>	<u>9 107</u>
Total revenues	<u>12 321 280</u>	<u>11 977 247</u>	<u>(344 033)</u>
Expenditures:			
Administration:			
Salaries and benefits		177 632	
Credit card fees		79 864	
General administration allocation		172 261	
Other		29 020	
	638 386	<u>458 777</u>	179 609
Operations:			
Salaries and benefits		557 786	
Supplies		221 700	
Generator fuel		69 615	
Repairs and maintenance		272 722	
Other		258 862	
	1 479 999	<u>1 380 685</u>	99 314
Electric power purchased	7 100 000	<u>6 350 825</u>	749 175
Debt service:			
Principal retirement		33 453	
Interest		1 496	
	34 949	<u>34 949</u>	-
Capital outlay:			
Equipment		47 190	
Vehicle		32 627	
	80 000	<u>79 817</u>	183

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, 2017

	<u>2017</u>		Variance
	<u>Budget</u>	<u>Actual</u>	Positive (Negative)
Contingency	\$ 14 343	\$	\$ 14 343
Total expenditures	<u>9 347 677</u>	<u>8 305 053</u>	<u>1 042 624</u>
Revenues over expenditures	<u>2 973 603</u>	<u>3 672 194</u>	<u>698 591</u>
Other financing sources (uses):			
Transfers to other funds:			
General Fund	(3 038 973)	(3 038 973)	
Fund balance appropriated	<u>65 370</u>	<u></u>	<u>(65 370)</u>
	<u>(2 973 603)</u>	<u>(3 038 973)</u>	<u>(65 370)</u>
Revenue under expenditures and other financing uses	<u>\$ -</u>	<u>633 221</u>	<u>\$ 633 221</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		79 817	
Depreciation		(509 576)	
Principal retirement		33 453	
Pension deferrals		<u>35 681</u>	
		<u>(360 625)</u>	
Change in net position		<u>\$ 272 596</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, 2017

	<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, 2017

	2017		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Water sales	\$3 198 000	\$3 182 223	\$ (15 777)
Sewer charges	1 335 000	1 350 123	15 123
Tap and connection fees	35 000	33 700	(1 300)
Other	33 000	67 359	34 359
	<u>4 601 000</u>	<u>4 633 405</u>	<u>32 405</u>
Nonoperating revenues:			
Interest	10 000	24 568	14 568
Contribution - local		180 000	180 000
	<u>10 000</u>	<u>204 568</u>	<u>194 568</u>
Total revenues	<u>4 611 000</u>	<u>4 837 973</u>	<u>226 973</u>
Expenditures:			
Administration:			
Salaries and benefits		291 154	
Supplies		43 934	
Repairs and maintenance		13 120	
General administration allocation		252 832	
Other		10 296	
	660 601	<u>611 336</u>	49 265
Water operations:			
Salaries and benefits		376 557	
Supplies		127 989	
Repairs and maintenance		28 862	
Other		146 478	
	685 341	<u>679 886</u>	5 455
Water plant:			
Salaries and benefits		454 126	
Supplies		116 383	
Repairs and maintenance		45 534	
Utilities		82 602	
Other		42 691	
	758 050	<u>741 336</u>	16 714

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, 2017

	2017		Variance Positive (Negative)
	Budget	Actual	
Sewer Operations:			
Salaries and benefits	\$	\$ 207 660	\$
Supplies		18 231	
Repairs and maintenance		14 748	
Other		99 720	
	478 200	340 359	137 841
Waste treatment plants:			
Salaries and benefits		427 752	
Supplies		89 787	
Utilities		166 311	
Repairs and maintenance		123 592	
Other		45 190	
	1 292 918	852 632	440 286
Pump station and storage:			
Salaries and benefits		242 468	
Supplies		14 669	
Utilities		82 917	
Repairs and maintenance		148 460	
Other		24 141	
	587 421	512 655	74 766
Debt service:			
Principal		106 901	
Interest		5 209	
	112 133	112 110	23
Capital outlay:			
Water operations		180 000	
Water plant		5 022	
Waste treatment plants		8 840	
Pump station and storage		57 900	
	252 100	251 762	338
Contingency	37 525		37 525
Total expenditures	4 864 289	4 102 076	762 213
Revenues over (under) expenditures	(253 289)	735 897	989 186

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, 2017

	<u>2017</u>		
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Other financing sources (uses):			
Transfers to other funds:			
To General Fund	\$ (559 685)	\$ (559 685)	\$
Fund balance appropriated	<u>812 974</u>	<u>(812 974)</u>	<u>(812 974)</u>
	<u>253 289</u>	<u>(559 685)</u>	<u>(812 974)</u>
Revenue and other sources over expenditures	<u>\$ -</u>	<u>176 212</u>	<u>\$ 176 212</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		251 762	
Depreciation		(1 330 939)	
Pension deferrals		94 357	
Principal retirement		<u>106 901</u>	
		<u>(877 919)</u>	
Change in net position		<u>\$ (701 707)</u>	

TOWN OF FOREST CITY, NORTH CAROLINA

OTHER SCHEDULES

TOWN OF FOREST CITY, NORTH CAROLINA

General Fund

Schedule of Ad Valorem Taxes Receivable

June 30, 2017

Year of Levy	Uncollected Balance June 30, 2016	Additions	Collections and Credits	Uncollected Balance June 30, 2017
2016	\$ -	\$3 410 736	\$3 364 872	\$ 45 864
2015	56 466		20 521	35 945
2014	30 894		10 569	20 325
2013	27 096		5 190	21 906
2012	16 297		1 502	14 795
2011	14 405		853	13 552
2010	10 731		560	10 171
2009	5 917		205	5 712
2008	6 694		119	6 575
2007	5 443		201	5 242
2006	<u>4 811</u>		<u>4 811</u>	
	<u>\$178 754</u>	<u>\$3 410 736</u>	<u>\$3 409 403</u>	<u>180 087</u>

Less allowance for doubtful accounts 79 800

Ad Valorem Taxes receivable - net \$100 287

Reconciliation with revenue:

Ad valorem taxes - General Fund		\$3 409 193
Releases	\$ 7 762	
Penalties and interest collected	(12 345)	
Taxes written off	<u>4 793</u>	<u>210</u>
		<u>\$3 409 403</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Analysis of Current Tax Levy

Town-Wide Levy

For the Fiscal Year Ended June 30, 2017

	<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	\$1 176 115 862	.29	\$3 410 736	\$3 275 702	\$135 034
Uncollected taxes at June 30, 2017			45 864	45 864	-
Current year's taxes collected and credited			\$3 364 872	\$3 229 838	\$135 034
Current levy collection percentage			98.66%	98.60%	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, 2017, 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 9, 2017. 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.



November 9, 2017