

TOWN OF FOREST CITY, NORTH CAROLINA
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 June 30, 2014

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TOWN OF FOREST CITY, NORTH CAROLINA

Financial Statements
(With Supplementary Information)

June 30, 2014

A handwritten signature in dark ink, appearing to read "D. Eaker", is written over the date "June 30, 2014".

TOWN OFFICIALS

MAYOR

Dennis L. Tarlton

COMMISSIONERS

Dee Dee Bright

David Eaker

Steve Holland

Chris Lee

Shawn Moore

OFFICERS

John Condrey, City Manager

Julie Scherer, Finance Director

Emily Sain, City Clerk

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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, the discretely presented component unit, and each fund, and the aggregate remaining fund information of the Town of Forest City, North Carolina, as of and for the year ended June 30, 2014, 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, 2014 and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, (Pages A-K), and the Law Enforcement Officers' Special Separation Allowance (Exhibits I and II), 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 Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I and the other auditors 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 the 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, other schedules, and schedule of expenditures of state awards, as required by U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund statements, budgetary schedules, other schedules and the Schedule of Expenditures of State Awards is 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 by me and the other auditors. In my opinion, based on my audit, the procedures performed as described above, and

the report of the other auditors, the individual fund statements, budgetary schedules, schedule of expenditures of state awards, 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 6, 2014 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.



November 6, 2014

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

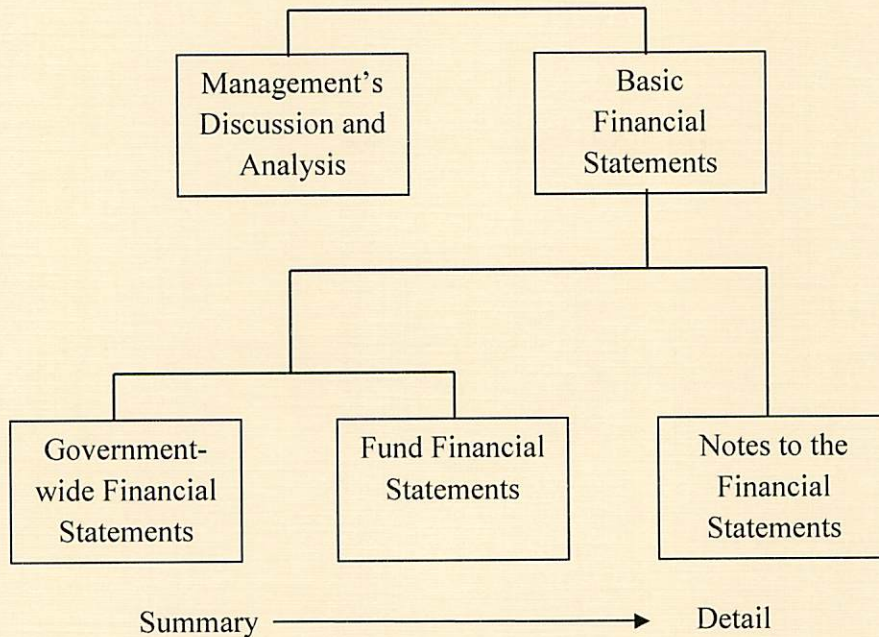
Financial Highlights

- The assets and deferred outflows of resources of the Town of Forest City exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$78,004,094 (*net position*).
- The government's total net position increased by \$694,805 due to positive results in the governmental funds.
- As of the close of the current fiscal year, the Town of Forest City's governmental funds reported combined ending fund balances of \$6,030,412 with a net increase of \$1,414,568 in fund balance. Approximately 16.12 percent of this total amount, or \$972,539, is non spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$4,224,107, or 39.66 percent of the total General Fund expenditures for the year.
- During the fiscal year, a commercial building was donated to the Town. The building was subsequently sold resulting in net proceeds of \$267,860.
- The Town of Forest City's total debt increased by \$673,700 (35.39%) during the current fiscal year. The key factors in this increase were (1) the issuance of a \$492,847 twenty year interest free loan from the N.C. Department of Environmental and Natural Resources for sewer line rehabilitation in the Central Business District and (2) the issuance of a \$413,517 installment purchase note for vehicles and equipment. This was offset by principal payments of approximately \$235,000.

Overview of the Financial Statements

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

Required Components of the Annual Financial Report
Figure 1



Basic Financial Statements

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

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

Management's Discussion and Analysis Town of Forest City

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

Government-wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes, sales taxes, utility franchise revenue, and state grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include water and sewer and electric services offered by the Town of Forest City. The final category is the component unit. Although legally separate from the Town, the ABC Board is important to the Town because the Town exercises control over the Board by appointing its members and the Board is required to distribute its profits to the Town.

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

Fund Financial Statements

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

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can be readily converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next

Management's Discussion and Analysis
Town of Forest City

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

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

Proprietary Funds – The Town of Forest City has one type of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements 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 begin on page 12 of this report.

Other Information - In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Forest City's progress in funding its obligation to provide pension benefits to its police employees. Required supplementary information can be found 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, 2013 and June 30, 2014 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	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 6,463,278	\$ 5,058,203	\$ 11,508,435	\$ 10,304,726	\$ 17,971,713	\$ 15,362,929
Restricted Assets						
Cash and cash equivalents	226,334	189,358	312,490	921,819	538,824	1,111,177
Capital assets - net	16,617,171	17,072,725	46,573,101	46,869,992	63,190,272	63,942,717
Other assets						
Due from component unit	95,228	122,924	-	-	95,228	122,924
Industrial development loan	-	-	876,871	950,000	876,871	950,000
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	\$ 23,402,011	\$ 22,443,210	\$ 59,270,897	\$ 59,046,537	\$ 82,672,908	\$ 81,489,747
Long-term liabilities outstanding	\$ 2,084,275	\$ 1,903,422	\$ 492,847	\$ -	\$ 2,577,122	\$ 1,903,422
Other liabilities	801,221	720,698	1,289,816	1,555,030	2,091,037	2,275,728
Deferred inflows of resources	655	1,308	-	-	655	1,308
Total liabilities and deferred inflows of resources	\$ 2,886,151	\$ 2,625,428	\$ 1,782,663	\$ 1,555,030	\$ 4,668,814	\$ 4,180,458
Net position:						
Net investment in capital assets	\$ 14,827,083	\$ 15,461,614	\$ 46,080,254	\$ 46,869,992	\$ 60,907,337	\$ 62,331,606
Restricted	949,108	663,804	-	-	949,108	663,804
Unrestricted	4,739,669	3,692,364	11,407,980	10,621,515	16,147,649	14,313,879
Total net position	\$ 20,515,860	\$ 19,817,782	\$ 57,488,234	\$ 57,491,507	\$ 78,004,094	\$ 77,309,289

Management's Discussion and Analysis
Town of Forest City

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Forest City exceeded liabilities and deferred inflows by \$78,004,094 as of June 30, 2014. The Town's net position increased by \$694,805 for the fiscal year ended June 30, 2014. The largest portion of Net Position (78.08%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery and equipment) which totals \$60,907,337. 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, \$949,108, represents resources which are subject to external restrictions as to how they may be used. The remaining balance, \$16,147,649, is unrestricted.

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

- The donation and sale of a commercial building on Oak Street,
- 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,
- An increase in the collection of property taxes by increasing the tax collection percentage from 96.07% in Fiscal Year 2012-2013 to 97.73% in Fiscal Year 2013-2014, and
- The continued cost saving efforts utilized by Town department heads which resulted in actual expenditures being much less than the budget in many areas.

Management's Discussion and Analysis
Town of Forest City

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Revenues						
Program Revenues:						
Charges for Services	\$ 1,412,873	\$ 1,388,086	\$ 16,889,664	\$ 15,790,823	\$ 18,302,537	\$ 17,178,909
Operating Grants and Contributions	277,286	316,488	-	-	277,286	316,488
Capital Grants and Contributions	-	-	282,896	2,141,392	282,896	2,141,392
General Revenue:						
Property Taxes	3,098,483	1,887,813	-	-	3,098,483	1,887,813
Other Taxes	587,536	556,753	-	-	587,536	556,753
Unrestricted Intergovernmental	1,115,311	970,200	-	-	1,115,311	970,200
Unrestricted Investment earnings	101,184	62,873	161,229	184,487	262,413	247,360
Gain on Sale of Capital Assets	35,659	(361,160)	5,927	-	41,586	(361,160)
Contribution - Real Estate Net Proceeds	267,860	-	-	-	267,860	-
Insurance Recovery	-	27,621	-	-	-	27,621
Miscellaneous	32,188	24,699	-	-	32,188	24,699
Total Revenues	\$ 6,928,380	\$ 4,873,373	\$ 17,339,716	\$ 18,116,702	\$ 24,268,096	\$ 22,990,075
Expenses:						
General Government	\$ 3,232,987	\$ 2,082,279	\$ -	\$ -	\$ 3,232,987	\$ 2,082,279
Public Safety	3,774,953	3,862,822	-	-	3,774,953	3,862,822
Transportation	1,361,704	1,417,738	-	-	1,361,704	1,417,738
Environmental Protection	1,019,076	1,036,689	-	-	1,019,076	1,036,689
Culture and Recreation	1,522,247	1,609,930	-	-	1,522,247	1,609,930
Community Development	-	38,416	-	-	-	38,416
Cemetery	5,836	16,943	-	-	5,836	16,943
Water and Sewer	-	-	4,332,709	4,341,663	4,332,709	4,341,663
Electric	-	-	8,323,779	8,106,733	8,323,779	8,106,733
Total Expenses	\$ 10,916,803	\$ 10,064,817	\$ 12,656,488	\$ 12,448,396	\$ 23,573,291	\$ 22,513,213
Total before transfers	\$ (3,988,423)	\$ (5,191,444)	\$ 4,683,228	\$ 5,668,306	\$ 694,805	\$ 476,862
Transfers	4,686,501	4,827,413	(4,686,501)	(4,827,413)	-	-
Increase (Decrease) in Net Position	\$ 698,078	\$ (364,031)	\$ (3,273)	\$ 840,893	\$ 694,805	\$ 476,862
Net Position July 1 as previously stated	\$ 19,817,782	\$ 20,181,813	\$ 57,491,507	\$ 56,552,692	\$ 77,309,289	\$ 76,734,505
Prior period adjustment	-	-	-	97,922	-	97,922
Net Position July 1 restated	\$ 20,515,860	\$ 19,817,782	\$ 57,488,234	\$ 57,491,507	\$ 78,004,094	\$ 77,309,289

Management's Discussion and Analysis
Town of Forest City

Governmental activities: Governmental activities increased the Town's net position by \$698,078, accounting for the total growth in the net position of the Town of Forest City. The increase in net position in the governmental activities is mainly attributable to higher than anticipated revenues due to conservative revenue estimates, especially in the area of property taxes and electric franchise utility tax, and a concerted effort to control and manage expenditures resulting in expenditures being much less than budget in some areas.

Business-type activities: Business-type activities decreased the Town of Forest City's net position by (\$3,273) having a minimal effect on the Town's net position.

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 \$4,798,470, and total fund balance reached \$6,030,412. As of June 30, 2014, the Town has an available balance of 45.06% 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, 2014, revenues were \$762,175 more than the budgeted amounts. Expenditures were \$1,072,544 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 \$368,943 from the prior year to a total of \$6,676,366 at June 30, 2014. Overall net position of the Water and Sewer Fund decreased (\$526,502). Unrestricted net position of the Electric Fund increased \$417,522 from the prior year to a total of \$4,731,614 as of June 30, 2014. Overall net

Management's Discussion and Analysis
Town of Forest City

position of the Electric Fund increased \$523,229. 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, 2014 totals \$63,190,272 (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 purchase of five Town vehicles.
- The purchase of thirty-six golf carts for the Golf Course.
- The completion of the water and sewer lines at Riverstone Industrial Park.
- The completion of the sewer line rehabilitation project in the Central Business District, and
- The retrofit of the Town's seven generators used for peak shaving purposes at the Lawing Road and Beaver Street sites.

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

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 7,042,077	\$ 7,206,674	\$ 293,597	\$ 293,597	\$ 7,335,674	\$ 7,500,271
Plant and Lines	-	-	44,697,114	42,615,223	44,697,114	42,615,223
Buildings	6,487,076	6,767,706	-	-	6,487,076	6,767,706
Equipment	1,248,231	1,150,934	1,582,390	1,678,868	2,830,621	2,829,802
Infrastructure	814,766	837,046	-	-	814,766	837,046
Vehicles	1,025,021	1,110,365	-	-	1,025,021	1,110,365
Construction in process	-	-	-	2,282,303	-	2,282,303
Total	\$ 16,617,171	\$ 17,072,725	\$ 46,573,101	\$ 46,869,991	\$ 63,190,272	\$ 63,942,716

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, 2014, the Town of Forest City had no bonded debt outstanding. The Town's outstanding debt consisted of an installment loan incurred in constructing the McNair Field baseball stadium (\$1,444,444), an installment loan for vehicles and equipment (\$345,644), an interest free 20 year loan from the North Carolina Department of Environmental and Natural Resources for a sewer line rehabilitation project (\$492,847), and net pension obligation (\$294,187). During the current fiscal year, long-term debt increased by \$673,700.

Town of Forest City Outstanding Debt
Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Capital Leases	\$ 1,790,088	\$ 1,611,111	\$ -	\$ -	\$ 1,790,088	\$ 1,611,111
NCDENR Loan	-	-	492,847	-	492,847	-
Net Pension Obligation	294,187	292,311	-	-	294,187	292,311
Total	\$ 2,084,275	\$ 1,903,422	\$ 492,847	\$ -	\$ 2,577,122	\$ 1,903,422

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 \$85,000,000.

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, 2015

Governmental Activities - Property taxes remain at \$.29/\$100 for fiscal year 2014-2015. 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 9%, or \$920,000, as compared to fiscal year 2013-2014 actual expenditures and decrease approximately 1%, or (\$152,000), as compared to the fiscal year 2013-2014 budget. Approximately \$366,000 of the increase in the actual expenditures comparison is due to the increase in the Facebook economic development incentive. Approximately \$381,000 of the increase is due to anticipated expenditures on the Florence Mill project in fiscal year 2014-2015 that did not occur in fiscal year 2013-2014.

Business-type Activities – Water and sewer rates will remain unchanged in fiscal year 2014-2015. Water and sewer revenues in the Town are expected to increase slightly due to increases in commercial sales. This increase in sales is mainly due to an increase in production at the Horsehead Metals facility. Rates for electricity may be adjusted during the year to allow for rate changes passed on 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 Julie Scherer, 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, 2014

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	
Assets				
Current assets:				
Cash and cash equivalents	\$ 5 529 838	\$ 8 394 649	\$13 924 487	\$358 587
Taxes receivable - net	116 828		116 828	
Accrued interest on taxes receivable	16 600		16 600	
Accounts receivable	149 035	2 344 788	2 493 823	
Due from component unit	30 393		30 393	
Other receivables	8 006	641 291	649 297	
Due from other governments	589 147	127 707	716 854	
Inventories	23 431		23 431	158 265
Prepaid items				5 601
Restricted assets:				
Cash	<u>226 334</u>	<u>312 490</u>	<u>538 824</u>	
	<u>6 689 612</u>	<u>11 820 925</u>	<u>18 510 537</u>	<u>522 453</u>
Capital assets:				
Land, non-depreciable improvements	7 042 077	293 597	7 335 674	50 000
Other-net of depreciation	<u>9 575 094</u>	<u>46 279 504</u>	<u>55 854 598</u>	<u>213 517</u>
	<u>16 617 171</u>	<u>46 573 101</u>	<u>63 190 272</u>	<u>263 517</u>
Other assets:				
Due from component unit	95 228		95 228	
Industrial development loan		<u>876 871</u>	<u>876 871</u>	
	<u>95 228</u>	<u>876 871</u>	<u>972 099</u>	<u>-</u>
Total assets	<u>23 402 011</u>	<u>59 270 897</u>	<u>82 672 908</u>	<u>785 970</u>
Liabilities				
Current liabilities:				
Accounts payable	471 309	863 235	1 334 544	146 550
Due primary government				30 393
Current portion - long term debt	303 660	24 642	328 302	
Compensated absences	329 912	114 091	444 003	
Payable from restricted assets:				
Customer deposits		<u>312 490</u>	<u>312 490</u>	
	<u>1 104 881</u>	<u>1 314 458</u>	<u>2 419 339</u>	<u>176 943</u>
Long-term liabilities				
Due primary government				95 639
Other	<u>1 780 615</u>	<u>468 205</u>	<u>2 248 820</u>	
Total liabilities	<u>2 885 496</u>	<u>1 782 663</u>	<u>4 668 159</u>	<u>272 582</u>
Deferred Inflow of Resources				
Prepaid taxes	<u>655</u>	<u>-</u>	<u>655</u>	<u>-</u>
Net Position				
Net invested in capital assets	14 827 083	46 080 254	60 907 337	167 878
Restricted for:				
Stabilization by State Statute	722 774		722 774	
Other	226 334		226 334	76 248
Unrestricted	<u>4 739 669</u>	<u>11 407 980</u>	<u>16 147 649</u>	<u>269 262</u>
Total net position	<u>\$20 515 860</u>	<u>\$57 488 234</u>	<u>\$78 004 094</u>	<u>\$513 388</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, 2014

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Governmental Activities	Business-Type Activities	
Primary Government:							
Governmental activities:							
General government	\$ 3 232 987	\$ 40 951	\$	\$	\$(3 192 036)	\$	\$(3 192 036)
Public safety	3 774 953	67 106	22 830		(3 685 017)		(3 685 017)
Transportation	1 361 704		249 913		(1 111 791)		(1 111 791)
Environmental protection	1 019 076	979 543	4 543		(34 990)		(34 990)
Cultural and recreation	1 522 247	310 073			(1 212 174)		(1 212 174)
Cemetery	5 836	15 200			9 364		9 364
Total governmental activities	<u>10 916 803</u>	<u>1 412 873</u>	<u>277 286</u>	<u>-</u>	<u>(9 226 644)</u>	<u>-</u>	<u>(9 226 644)</u>
Business-type activities:							
Electric	8 323 779	12 311 205				3 987 426	3 987 426
Water and sewer	<u>4 332 709</u>	<u>4 578 459</u>		<u>282 896</u>	<u>-</u>	<u>528 646</u>	<u>528 646</u>
Business-type activities	<u>12 656 488</u>	<u>16 889 664</u>	<u>-</u>	<u>282 896</u>	<u>-</u>	<u>4 516 072</u>	<u>4 516 072</u>
Total primary government	<u>\$23 573 291</u>	<u>\$18 302 537</u>	<u>\$277 286</u>	<u>\$ 282 996</u>	<u>(9 226 644)</u>	<u>4 516 072</u>	<u>(4 710 572)</u>
Component Unit:							
ABC Board	<u>\$ 1 750 128</u>	<u>\$ 1 770 447</u>	<u>\$ -</u>	<u>\$ -</u>			<u>\$ 20 319</u>
General revenues:							
Taxes:							
Property taxes					3 098 483		3 098 483
Other taxes					587 536		587 536
Unrestricted intergovernmental					1 115 311		1 115 311
Unrestricted investment earnings					101 184	161 229	262 413
Gain on sale of capital assets					35 659	5 927	41 586
Contribution - Real estate net proceeds					267 860		267 860
Miscellaneous					<u>32 188</u>		<u>32 188</u>
Total general revenues not including transfers					5 238 221	167 156	5 405 377
							1 423

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, 2014

<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenue and Changes in Net Assets</u>			
	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Primary Government Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
Transfers				\$ 4 686 501	\$(4 686 501)	\$ -	\$ -
Total general revenues and transfers				<u>9 924 722</u>	<u>(4 519 345)</u>	<u>5 405 377</u>	<u>1 423</u>
Change in net position				698 078	(3 273)	694 805	21 742
Net position:							
Beginning				<u>19 817 782</u>	<u>57 491 507</u>	<u>77 309 289</u>	<u>491 646</u>
Ending				<u>\$20 515 860</u>	<u>\$57 488 234</u>	<u>\$78 004 094</u>	<u>\$513 388</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA
Balance Sheet
Governmental Funds
 June 30, 2014

	General	Capital Projects	Total
Assets			
Cash and cash equivalents	\$5 529 838	\$	\$5 529 838
Restricted cash	226 334		226 334
Receivables:			
Taxes	116 828		116 828
Accounts	149 035		149 035
Other	8 006		8 006
Due from other governments	589 147		589 147
Inventories	23 431		23 431
Component unit: Note receivable	95 228		95 228
Distributions	30 393		30 393
	\$6 768 240	\$ -	\$6 768 240
Liabilities			
Liabilities:			
Accounts payable and accrued liabilities	\$ 471 309	\$ -	\$ 471 309
Deferred Inflows of Resources			
Property tax receivable	116 829		116 829
Accounts receivable	149 035		149 035
Prepaid taxes	655		655
	266 519	-	266 519
Fund Balances:			
Non spendable - inventories	23 431		23 431
Restricted:			
Stabilization by State Statute	722 774		722 774
Streets	226 334		226 334
Committed:			
Downtown development	259 403		259 403
Assigned:			
Subsequent year expenditures	574 363		574 363
Unassigned	4 224 107		4 224 107
	\$6 030 412	\$ -	\$6 030 412

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		\$16 617 171
Other long-term assets (accrued interest receivable on taxes) are not available to pay for current period expenditures and therefore are deferred		16 600
Liabilities for earned revenues considered deferred inflows of resources in fund statements		265 864
Some liabilities are not due and payable in the current period and are not reported in the fund statements:		
Compensated absences	\$ (329 912)	
Long-term debt	(2 084 275)	(2 414 187)
Reconciling amount		14 485 448
Fund balance - June 30, 2014		6 030 412
Net position governmental activities - June 30, 2014		\$20 515 860

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, 2014

	<u>General</u>	<u>Capital Projects</u>	<u>Total</u>
Revenues:			
Ad valorem taxes	\$ 3 095 807	\$	\$ 3 095 807
Other taxes and licenses	600 992		600 992
Unrestricted intergovernmental	1 153 231		1 153 231
Restricted intergovernmental	283 468		283 468
Permits and fees	24 126		24 126
Sales and services	1 274 640		1 274 640
Investment earnings	105 558		105 558
Miscellaneous	82 669		82 669
	<u>6 620 491</u>	<u>-</u>	<u>6 620 491</u>
Expenditures:			
Current:			
General government	2 815 457		2 815 457
Public safety	3 531 700		3 531 700
Transportation	1 231 393		1 231 393
Environmental protection	1 019 076		1 019 076
Cultural and recreation	1 364 738		1 364 738
Cemetery	4 998		4 998
Capital outlay	407 414		407 414
Debt service:			
Principal	234 540		234 540
Interest	39 644		39 644
	<u>10 648 960</u>	<u>-</u>	<u>10 648 960</u>
Revenues under expenditures	<u>(4 028 469)</u>	<u>-</u>	<u>(4 028 469)</u>
Other financing sources (uses):			
Operating transfers from			
Enterprise Funds	4 686 501		4 686 501
Sale of fixed assets	75 159		75 159
Installment note issued	413 517		413 517
Contributions - real estate proceeds	267 860		267 860
	<u>5 443 037</u>	<u>-</u>	<u>5 443 037</u>
Net changes in fund balance	1 414 568	-	1 414 568
Fund balance:			
Beginning	<u>4 615 844</u>	<u>-</u>	<u>4 615 844</u>
Ending	<u>\$ 6 030 412</u>	<u>\$ -</u>	<u>\$ 6 030 412</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Statement of Revenues, Expenditures, and Changes in Fund Balance

Governmental Fund - General Fund

For the Year Ended June 30, 2014

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	\$ 407 414	
Depreciation for governmental assets	<u>(698 371)</u>	(290 957)
The cost or book value of fixed assets sold or abandoned is not considered in the governmental fund statements		(164 597)

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

New long term debt issued	234 540	
Principal payments on long-term debt	<u>(413 517)</u>	(178 977)

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

Tax revenues	2 676	
Environmental protection revenues	(806)	
Other	<u>2 500</u>	4 370

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	(84 453)	
Net pension obligation	<u>(1 876)</u>	<u>(86 329)</u>

Reconciling amount (716 490)

Net changes in fund balance - governmental fund 1 414 568

Total changes in net position of governmental activities \$ 698 078

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

TOWN OF FOREST CITY, NORTH CAROLINA
Statement of Revenues, Expenditures and Changes in Fund Balance -
Budget and Actual
Governmental Fund - General Fund
 For the Year Ended June 30, 2014

	Budget		Actual	Variance With Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 2 718 359	\$ 2 718 359	\$ 3 095 807	\$ 377 448
Other taxes and licenses	569 582	569 582	600 992	31 410
Unrestricted				
intergovernmental	842 858	842 858	1 153 231	310 373
Restricted intergovernmental	265 000	268 685	283 468	14 783
Permits and fees	30 500	30 500	24 126	(6 374)
Sales and services	1 286 600	1 293 635	1 274 640	(18 995)
Investment earnings	70 517	70 517	105 558	35 041
Miscellaneous	47 900	64 180	82 669	18 489
	<u>5 831 316</u>	<u>5 858 316</u>	<u>6 620 491</u>	<u>762 175</u>
Expenditures:				
Current:				
General government	3 192 486	3 281 893	2 846 375	435 518
Public safety	3 829 322	3 839 287	3 609 194	230 093
Transportation	1 405 659	1 405 659	1 315 821	89 838
Environmental protection	1 057 000	1 057 000	1 019 076	37 924
Cultural and recreation	1 650 127	1 671 832	1 571 639	100 193
Cemetery	19 200	19 200	12 671	6 529
Debt service:				
Principal	248 253	248 253	234 540	13 713
Interest	41 900	41 900	39 644	2 256
Contingency	162 650	156 480		156 480
	<u>11 606 597</u>	<u>11 721 504</u>	<u>10 648 960</u>	<u>1 072 544</u>
Deficiency of revenues over expenditures	<u>(5 775 281)</u>	<u>(5 863 188)</u>	<u>(4 028 469)</u>	<u>1 834 719</u>
Other financing sources:				
Transfers from other funds	4 686 501	4 686 501	4 686 501	
Contribution - real estate proceeds - net		290 000	267 860	(22 140)
Installment note issued	490 363	503 363	413 517	(89 846)
Sale of fixed assets	87 000	87 000	75 159	(11 841)
Fund balance appropriated	511 417	296 324		(296 324)
	<u>5 775 281</u>	<u>5 863 188</u>	<u>5 443 037</u>	<u>(420 151)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>1 414 568</u>	<u>\$1 414 568</u>
Fund balance:				
Beginning of year			<u>4 615 844</u>	
End of year			<u>\$ 6 030 412</u>	

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, 2014

	<u>Enterprise Funds</u>		
	<u>Electric Total</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Assets:			
Current assets:			
Cash and cash equivalents	\$ 2 718 414	\$ 5 676 235	\$ 8 394 649
Accounts receivable:			
Billed - net	1 277 758	99 230	1 376 988
Unbilled	764 500	203 300	967 800
Other receivables	642 628	126 370	768 998
Restricted cash/cash equivalents	<u>222 314</u>	<u>90 176</u>	<u>312 490</u>
	<u>5 625 614</u>	<u>6 195 311</u>	<u>11 820 925</u>
Noncurrent assets:			
Capital assets:			
Land and other non-depreciable assets	115 715	177 882	293 597
Other capital assets, net of depreciation	<u>4 093 841</u>	<u>42 185 663</u>	<u>46 279 504</u>
	4 209 556	42 363 545	46 573 101
Other:			
Industrial development loan		<u>876 871</u>	<u>876 871</u>
	<u>4 209 556</u>	<u>43 240 416</u>	<u>47 449 972</u>
Total assets	<u>9 835 170</u>	<u>49 435 727</u>	<u>59 270 897</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	653 704	209 531	863 235
Current maturities - long-term debt		24 642	24 642
Compensated absences	17 982	96 109	114 091
Payable from restricted assets:			
Customer deposits	<u>222 314</u>	<u>90 176</u>	<u>312 490</u>
	894 000	420 458	1 314 458
Long-term debt		<u>468 205</u>	<u>468 205</u>
Total liabilities	<u>894 000</u>	<u>888 663</u>	<u>1 782 663</u>
Net position:			
Invested in capital assets	4 209 556	41 870 698	46 080 254
Unrestricted	<u>4 731 614</u>	<u>6 676 366</u>	<u>11 407 980</u>
Total net position	<u>\$ 8 941 170</u>	<u>\$48 547 064</u>	<u>\$57 488 234</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, 2014

	<u>Enterprise Funds</u>		
	<u>Electric Fund</u>	<u>Water and Sewer Fund</u>	<u>Total</u>
Operating revenues:			
Charge for services	\$12 033 208	\$ 4 487 781	\$16 520 989
Late payment penalties	235 121		235 121
Other operating revenue	42 876	90 678	133 554
	<u>12 311 205</u>	<u>4 578 459</u>	<u>16 889 664</u>
 Operating expenses:			
Administration	166 136	318 938	485 074
Operations	1 207 472	859 133	2 066 605
Electric power purchased	6 497 018		6 497 018
Water plant		645 216	645 216
Waste treatment plants		722 716	722 716
Pump station and storage		484 757	484 757
Depreciation	453 153	1 301 949	1 755 102
	<u>8 323 779</u>	<u>4 332 709</u>	<u>12 656 488</u>
Operating income	<u>3 987 426</u>	<u>245 750</u>	<u>4 233 176</u>
 Nonoperating revenues:			
Investment earnings	51 148	110 081	161 229
Sale of fixed assets		5 927	5 927
	<u>51 148</u>	<u>116 008</u>	<u>167 156</u>
Income before transfers and contributions	4 038 574	361 758	4 400 332
Capital contributions - net		282 896	282 896
Transfers to other funds	<u>(3 515 345)</u>	<u>(1 171 156)</u>	<u>(4 686 501)</u>
 Change in net position	523 229	(526 502)	(3 273)
 Net position:			
Beginning	<u>8 417 941</u>	<u>49 073 566</u>	<u>57 491 507</u>
Ending	<u>\$ 8 941 170</u>	<u>\$48 547 064</u>	<u>\$57 488 234</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, 2014

	Enterprise Funds		
	Electric Fund	Water and Sewer Fund	Total
Cash flows from operating activities:			
Cash received from customers	\$12 146 364	\$ 4 569 941	\$16 716 305
Cash paid for goods and services	(7 330 944)	(1 274 965)	(8 605 909)
Cash paid to or on behalf of employees for services	(544 962)	(1 605 803)	(2 150 765)
Other operating revenues	<u>84 160</u>	<u>53 128</u>	<u>137 288</u>
	<u>4 354 618</u>	<u>1 742 301</u>	<u>6 096 919</u>
Cash flows from noncapital financing activities:			
Transfers to other funds	(3 515 345)	(1 171 156)	(4 686 501)
Note principal collected		<u>73 130</u>	<u>73 130</u>
	<u>(3 515 345)</u>	<u>(1 098 026)</u>	<u>(4 613 371)</u>
Cash flows from capital and related financing activities:			
Acquisition of capital assets	(558 860)	(1 682 654)	(2 241 514)
Contributed capital		1 103 436	1 103 436
Construction grant-loan issued		492 847	492 847
Fixed assets sold		<u>51 956</u>	<u>51 956</u>
	<u>(558 860)</u>	<u>(34 415)</u>	<u>(593 275)</u>
Cash flows from investing activities:			
Interest on investments	<u>51 148</u>	<u>110 081</u>	<u>161 229</u>
Net decrease in cash and cash equivalents	331 561	719 941	1 051 502
Cash and cash equivalents:			
Beginning of year - July 1	<u>2 609 167</u>	<u>5 046 470</u>	<u>7 655 637</u>
End of year - June 30	<u>\$ 2 940 728</u>	<u>\$ 5 766 411</u>	<u>\$ 8 707 139</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, 2014

	<u>Enterprise Funds</u>		
	<u>Electric</u>	<u>Water and</u>	<u>Total</u>
	<u>Fund</u>	<u>Sewer Fund</u>	
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	<u>\$ 3 987 426</u>	<u>\$ 245 750</u>	<u>\$ 4 233 176</u>
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	453 153	1 301 949	1 755 102
Decrease (increase) in assets:			
Accounts receivable	(84 328)	39 366	(44 962)
Other receivables	(1 460)	1 630	170
Increase (decrease) in liabilities:			
Accounts payable	143	128 403	128 546
Customer deposits	3 464	2 863	6 327
Compensated absences	<u>(3 780)</u>	<u>22 340</u>	<u>18 560</u>
Total adjustments	<u>367 192</u>	<u>1 496 551</u>	<u>1 863 743</u>
Net cash provided by operating activities	<u><u>\$ 4 354 618</u></u>	<u><u>\$ 1 742 301</u></u>	<u><u>\$ 6 096 919</u></u>

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

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2014

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

Fund Financial Statements

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

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

The Town reports the following governmental funds:

General Fund - The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, intergovernmental, and various service fees. The primary expenditures are for public safety, street maintenance and construction, and recreation. The Town 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 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 January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year end on-behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned revenues. Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

(D) **Budgetary Data**

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal-year end. Project ordinances, either annual or multi-year as appropriate, are adopted for the Capital Projects Fund, the Enterprise Fund Capital Projects Funds, and the Electric Rate Stabilization Fund.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

The enterprise fund projects are consolidated with their respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the 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 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 securities of the NCCMT-Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

The Town pools money from 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		\$226 334
Business-type Activities:		
Electric Fund:		
Customer deposits	\$222 314	
Water Sewer Fund:		
Customer deposits	<u>90 176</u>	<u>312 490</u>
Total restricted cash		<u>\$538 824</u>

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, 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 are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

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

Property, plant and equipment of the ABC Board are depreciated over their useful lives on a straight-line basis as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Furniture and equipment	5-10
Building	30
Building improvements	10-29

Compensated Absences

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

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

ABC Board employees may accumulate earned vacation and such leave is fully vested when earned. Accumulated earned vacation at June 30, 2014 amounted to \$9,213. 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 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.

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 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.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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 and is not already classified in the restricted or committed classifications.

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

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

II. 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

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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. 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, 2014, the Town's deposits had a carrying amount of \$10,620,426 and a bank balance of \$10,884,987. Of the bank balance \$1,000,000 was covered by federal depository insurance and the balance was collateralized under the Pooling Method. The carrying amount of deposits of the ABC Board was \$355,032 and the bank balance was \$361,944; all of the ABC Board's bank balance was covered by federal depository insurance. At June 30, 2014, the Town's drawer funds totaled \$3,500 and the ABC Board's totaled \$3,555.

Investments

At June 30, 2014, the Town of Forest City had \$3,839,385 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Receivables - Allowance for Doubtful Accounts

Receivables at the government-wide level at June 30, 2014 were as follows:

	Taxes & Accrued <u>Interest</u>	<u>Accounts</u>	Due From Other <u>Governments</u>	<u>Other</u>
Governmental Activities:				
General	\$186 028	\$ 163 035	\$589 147	\$ 8 006
Allowance for doubtful accounts	<u>52 600</u>	<u>14 000</u>	<u> </u>	<u> </u>
	<u>\$133 428</u>	<u>\$ 149 035</u>	<u>\$589 147</u>	<u>\$ 8 006</u>
Business-Type Activities:				
Electric	\$	\$2 109 458	\$ 1 624	\$641 004
Water and sewer	<u> </u>	<u>304 630</u>	<u>126 083</u>	<u>287</u>
	-	2 414 088	127 707	641 291
Allowance for doubtful accounts	<u> </u>	<u>69 300</u>	<u> </u>	<u> </u>
	<u>\$ -</u>	<u>\$2 344 788</u>	<u>\$127 707</u>	<u>\$641 291</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	\$151 746	\$
Property taxes unremitted	11 217	
State taxes collected	409 730	
Cost reimbursements		113 742
Services rendered	2 387	13 965
Payments in lieu	<u>14 067</u>	<u> </u>
	<u>\$589 147</u>	<u>\$127 707</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

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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.

Eight payments were received during the year ended June 30, 2014. 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 is \$22,109.

Capital Assets

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

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decrease</u>	<u>Ending Balances</u>
Governmental				
Activities:				
Capital assets				
not being				
depreciated:				
Land	\$ 7 206 674	\$	\$ 164 597	\$ 7 042 077
		<u> </u>	<u> </u>	
Capital assets being				
depreciated:				
Equipment	\$ 3 448 639	\$ 275 171	\$ 66 674	\$ 3 657 136
Vehicles	3 500 199	175 072	76 331	3 598 940
Buildings	10 532 420	19 814		10 552 234
Infrastructure	<u>1 114 000</u>			<u>1 114 000</u>
	<u>18 595 258</u>	<u>\$ 470 057</u>	<u>\$ 143 005</u>	<u>18 922 310</u>
		<u> </u>	<u> </u>	
Less accumulated				
depreciation:				
Equipment	\$ 2 297 705	\$ 167 954	\$ 56 754	\$ 2 408 905
Vehicles	2 389 834	207 693	23 608	2 573 919
Buildings	3 764 714	300 444		4 065 158
Infrastructure	<u>276 954</u>	<u>22 280</u>		<u>299 234</u>
	<u>8 729 207</u>	<u>\$ 698 371</u>	<u>\$ 80 362</u>	<u>9 347 216</u>
		<u> </u>	<u> </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>
Governmental activities capital assets - net	\$17 072 725			\$16 617 171

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

General government	\$ 209 704
Public safety	241 377
Transportation	130 311
Cultural and recreation	116 141
Cemetery	<u>838</u>
	<u>\$ 698 371</u>

Business-Type

Activities:

Electric Fund:

Capital assets
not being
depreciated:

Land	\$ 115 715	\$ -	\$ -	\$ 115 715
------	------------	------	------	------------

Capital assets
being
depreciated:

Equipment	\$ 1 085 906	\$ 22 355	\$	\$ 1 108 261
Plant and lines	<u>10 485 007</u>	<u>536 505</u>	<u> </u>	<u>11 021 512</u>
	<u>11 570 913</u>	<u>\$ 558 860</u>	<u>\$ -</u>	<u>12 129 773</u>

Less
accumulated
depreciation:

Equipment	858 378	\$ 56 903	\$	915 281
Plant and lines	<u>6 724 401</u>	<u>396 250</u>	<u> </u>	<u>7 120 651</u>
	<u>7 582 779</u>	<u>\$ 453 153</u>	<u>\$ -</u>	<u>8 035 932</u>

Electric Fund
capital assets-
net

4 103 849

4 209 556

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>
Water and Sewer				
Fund:				
Capital assets				
not being				
depreciated:				
Land	\$ 177 882	\$	\$	\$ 177 882
Work in process	<u>2 282 303</u>	<u>1 028 115</u>	<u>3 310 418</u>	<u> </u>
	<u>2 460 185</u>	<u>\$1 028 115</u>	<u>\$3 301 418</u>	<u>177 882</u>
Capital assets				
being				
depreciated:				
Equipment	4 227 267	\$ 105 354	\$ 13 293	4 319 328
Plant and lines	<u>57 422 507</u>	<u>3 145 937</u>	<u>56 910</u>	<u>60 511 534</u>
	<u>61 649 774</u>	<u>\$3 251 291</u>	<u>\$ 70 203</u>	<u>64 830 862</u>
Less				
accumulated				
depreciation:				
Equipment	\$ 2 775 927	\$ 165 164	\$ 11 173	\$ 2 929 918
Plant and lines	<u>18 567 890</u>	<u>1 160 392</u>	<u>13 001</u>	<u>19 715 281</u>
	<u>21 343 817</u>	<u>\$1 325 556</u>	<u>\$ 24 174</u>	<u>22 645 199</u>
Water and Sewer				
Fund capital				
assets - net				
	<u>42 766 142</u>			<u>42 363 545</u>
Business-type				
activities				
capital assets				
net				
	<u>\$46 869 991</u>			<u>\$46 573 101</u>

Commitments

The Primary Government has two active construction projects as of June 30, 2014. At year end, the Town had no known outstanding commitments for these projects.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Discretely Presented Component Unit

Capital asset activity for the Forest City ABC Board for the period ended June 30, 2014 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	101 427	\$ 8 178	\$ -	109 605
Building and improvements	<u>300 000</u>	<u> </u>	<u> </u>	<u>300 000</u>
	<u>401 427</u>	<u>\$ 8 178</u>	<u>\$ -</u>	<u>409 605</u>
Less accumulated depreciation:				
Equipment	76 930	\$ 7 491	\$ -	84 421
Building and improvements	<u>101 667</u>	<u>10 000</u>	<u> </u>	<u>111 667</u>
	<u>178 597</u>	<u>\$17 491</u>	<u>\$ -</u>	<u>196 088</u>
Forest City ABC capital assets - net	<u>\$272 830</u>			<u>\$263 517</u>

(B) **Liabilities**

Payables

Payables at the government-wide level at June 30, 2014 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
Governmental Activities:			
General	<u>\$373 807</u>	<u>\$97 502</u>	<u>\$471 309</u>
Business-Type Activities:			
Enterprise	<u>\$825 436</u>	<u>\$37 799</u>	<u>\$863 235</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statement

Pension Plan Obligation and Post-Employment Obligations:

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

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

Funding Policy: Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. The Town's current rate for employees not engaged in law enforcement and for law enforcement officers is 12.47% and 12.68%, respectfully, of annual covered payroll. The contribution requirements of members and of the Town of Forest City are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$651,941, \$613,629, and \$594,280 respectively. The contributions made by the Town equaled the required contributions for each year.

b) **Law Enforcement Officers Special Separation Allowance**

Plan Description: The Town of Forest City administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85% of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statement

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2013, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Terminated plan members entitled to but not yet receiving benefits	
Active plan members	<u>33</u>
Total	<u>36</u>

A separate report was not issued for the plan.

Summary of Significant Accounting Policies:

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

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

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

The annual required contribution for the current year was determined as part of the December 31, 2013 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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

Annual required contribution	\$ 57 928
Interest on net pension obligation	14 616
Adjustment to annual required contribution	<u>(23 815)</u>
Annual pension cost	48 729
Contributions made	<u>46 853</u>
Increase in net pension obligation	1 876
Net pension obligation beginning of year	<u>292 311</u>
Net pension obligation end of year	<u><u>\$294 187</u></u>

3 Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/12	50 853	58.96%	273 435
6/30/13	53 078	64.44%	292 311
6/30/14	48 729	96.15%	294 187

Funded Status and Funding Progress: As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and the unfunded actuarial accrued liability (UAAL) was \$497,857. The covered payroll (annual payroll of active employees covered by the plan) was \$1,445,351, and the ratio of the UAAL to the covered payroll was 34.45%.

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

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

Plan Description: The Town contributes to the Supplemental Retirement Income Plan (Plan), a defined contribution pension plan administered by the Department of State Treasurer and a Board of Trustees. The Plan provides retirement benefits to law enforcement officers employed by the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

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, 2014 were \$74,213 which consisted of \$68,835 from the Town and \$5,378 from the law enforcement officers.

d) **Firemen's Pension Fund**

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

Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firemen's and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy: Plan members are required to contribute \$10 per month to the Fund. The State, a nonemployer contributor, funds the plan through appropriations. The Town does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly. For the current fiscal year, the Town has recognized on-behalf payments made by the State for \$6,081 as a revenue and an expenditure.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

e) **Other Postemployment Benefits**

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

Health Care Benefits

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

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

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

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.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Employees first hired on and after October 1, 2006 with 10 but less than 20 years of retirement service are eligible for coverage on a partially contributory basis. For such future retirees, the State will pay 50% of the State Health Plan's total noncontributory premium.

Contributions are determined as a percentage of covered monthly payroll. Annually, the monthly contribution rates to the 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, 2014, 2013, and 2012, the Town paid all annual required contributions to the Plan for postemployment health care benefits of \$281,000, \$269,900, and \$247,800 respectively. These contributions represented 5.4%, 5.3%, and 5.0% of covered payroll, respectively.

f) **Other Employment Benefits**

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

As a result of a surplus in the LGRS Death Benefit Plan, the State has suspended through June 30, 2015 the Town's death benefit contribution. Contributions are scheduled to resume for the fiscal year beginning July 1, 2015.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Deferred Inflows of Resources

The balance in deferred inflow of resources on the General Fund balance sheet at June 30, 2014 is composed of the following:

	<u>Unavailable Revenue</u>	<u>Unearned Revenue</u>
Property taxes:		
Prepaid taxes	\$	\$655
Taxes receivable-net	116 829	
Solid waste fee receivable-net	140 720	
Cemetery lots receivable	<u>8 315</u>	
	<u>\$265 864</u>	<u>\$655</u>

Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town secures insurance coverage for these risks from several commercial insurance companies. The Town's insurance coverage includes: (1) general liability, \$13 million; (2) fire coverage on buildings at estimated replacement costs and up to \$5 million for flood and earthquake; (3) errors and omissions liability, \$11 million; (4) auto liability, \$11 million and (5) public officials liability, \$13 million. Various deductibles apply to coverage amounts. In addition, the Town secures workers' compensation coverage up to the statutory limits and an employers' liability limit of \$1 million. All of these coverages, 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 fidelity 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.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

Long-Term Obligations

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

	<u>Total Due</u>
Commercial note issued in the amount of \$2,500,000; collateral is improvements financed by the note proceeds; 3.66% annual rate (reduced to 2.43% effective February 21, 2013); \$13,889 plus interest due monthly	
Due June 30, 2014	\$1 444 444
Due after 12 months	<u>166 666</u>
	<u>\$1 277 778</u>

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

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 166 666	\$ 33 245	\$ 199 911
2016	166 667	29 193	195 860
2017	166 666	25 144	191 810
2018	166 667	21 094	187 761
2019	166 666	17 044	183 710
Last four years	<u>611 112</u>	<u>27 843</u>	<u>638 955</u>
	<u>\$1 444 444</u>	<u>\$153 563</u>	<u>\$1 598 007</u>

During the year ended June 30, 2014, the Town issued an installment contract, in accordance with G.S. 160A-20, with a local bank to finance the purchase of identified personal property.

Installment purchase obligation issued in the amount of \$413,517; collateral is the equipment purchased with the proceeds; 1.22% annual rate; due \$11,704 monthly including interest.

Due June 30, 2014	\$345 644
Due within 12 months	<u>136 994</u>
	<u>\$208 650</u>

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

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$136 994	\$3 453	\$140 447
2016	138 675	1 772	140 447
2017	<u>69 975</u>	<u>249</u>	<u>70 224</u>
	<u>\$345 644</u>	<u>\$5 474</u>	<u>\$351 118</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

In addition to the above note, the Town was approved on May 3, 2013 for a loan/grant through the N.C. Department of Environmental and Natural Resources in the amount of \$944,197 to finance a sewer rehabilitation project. At the conclusion of the project \$451,350 in principal was forgiven and the balance of \$492,847 is to be amortized by 20 annual payments starting May 30, 2015 each in the amount of \$24,642 interest free. This revolving loan is reported in the Water Sewer Fund.

During the year ended June 30, 2014, the following changes occurred in long-term debt obligations:

	Balance <u>06/30/13</u>	<u>Increase</u>	<u>Decrease</u>	Balance <u>06/30/14</u>	Current <u>Portion</u>
Governmental:					
Commercial					
note - '08	\$1 611 111	\$	\$166 667	\$1 444 444	\$166 666
Installment					
note - '14		413 517	67 873	345 644	136 994
Net pension					
obligation	<u>292 311</u>	<u>1 876</u>	<u> </u>	<u>294 187</u>	<u> </u>
	<u>\$1 903 422</u>	<u>\$415 393</u>	<u>\$234 540</u>	<u>\$2 084 275</u>	<u>\$303 660</u>
Business-type:					
Revolving					
note	\$	\$492 847	\$	\$ 492 847	24 642
	\$ -	\$492 847	\$	\$492 847	\$24 642
Component unit:					
Due Town	\$ 122 924	\$ -	\$ 27 696	\$ 95 228	\$ 29 113

The Town's principal requirement for long term debt, not including the net pension obligation is summarized as follows:

<u>Year Ending June 30,</u>	<u>Governmental</u> <u>Activities</u>	<u>Business</u> <u>Type Activities</u>	<u>Total</u>
2015	\$ 303 660	\$ 24 642	\$ 328 302
2016	305 342	24 642	329 984
2017	236 641	24 643	261 284
2018	166 667	24 642	191 309
2019	166 666	24 642	191 308
Next 5 years	611 112	123 212	734 324
Next 5 years		123 212	123 212
Next 5 years		123 212	123 212
	<u>\$1 790 088</u>	<u>\$492 847</u>	<u>\$2 282 935</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

The ABC Board's long-term debt as above consisted at June 30, 2014 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 \$29,113.

At June 30, 2014, the Town of Forest City had no bonds which were authorized as outstanding; the Town's legal debt margin was approximately \$85,000,000.

(C) **Interfund Activity**

Transfers to/from other funds for the year ended June 30, 2014 consist of the following:

Water Sewer Fund to Capital Projects Fund	\$ 19 616
Electric Fund to Parks and Recreation Fund	\$ 515 345
Electric Fund to General Fund	\$3 000 000
Water Sewer Fund to Parks and Recreation	\$ 850 000
Water Sewer Fund to Florence Mill Fund	\$ 263 888
Water Sewer Fund to General Fund	<u>57 268</u>
	<u>\$4 706 117</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 of the General Fund and the Capital Projects Fund.

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

On-Behalf Payments for Fringe Benefits

For the fiscal year ended June 30, 2014, the Town of Forest City has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure of \$6,081 for the firemen who perform firefighting duties for the Town's fire department. The firemen elected to be members of the Firemen's and Rescue Squad Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

(E) Fund Balance

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

Total fund balance - General Fund		\$6 030 412
Less: Inventories	\$ 23 431	
Stabilization by State Statute	722 774	
Streets - Powell Bill	226 334	
Appropriated fund balance in 2014 budget	574 363	
Downtown Development	<u>259 403</u>	<u>1 806 305</u>
Unassigned - available for appropriation		<u>\$4 224 107</u>

(F) Interfund Balances

The Water Sewer Fund routinely advances funds to the Water Sewer Capital Project Fund. The advances are normally repaid within 60 days by grant reimbursement. At June 30, 2014 this advance totaled \$- 0 -.

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, 2014. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local board of trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

TOWN OF FOREST CITY, NORTH CAROLINA

Notes to the Financial Statements

V. **Summary Disclosure of Significant Contingencies**

Federal and State Assisted Programs

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

TOWN OF FOREST CITY, NORTH CAROLINA

REQUIRED SUPPLEMENTAL FINANCIAL DATA

TOWN OF FOREST CITY, NORTH CAROLINA

Law Enforcement Officers Special Separation Allowance

Required Supplemental Information

Schedule of Funding Progress

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) - Proj Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b-a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll for Year Ending on Val Date (c)</u>	<u>UAAL as a Percentage of Covered Payroll ((b-a)/c)</u>
12/31/08	0	301 192	301 192	0.00	1 376 359	21.88
12/31/09	0	509 701	509 701	0.00	1 363 482	37.38
12/31/10	0	475 950	475 950	0.00	1 343 309	35.43
12/31/11	0	485 656	485 656	0.00	1 388 529	34.98
12/31/12	0	479 886	479 886	0.00	1 365 308	35.15
12/31/13	0	497 857	497 857	0.00	1 445 351	34.45

TOWN OF FOREST CITY, NORTH CAROLINA

Law Enforcement Officers Special Separation Allowance

Required Supplemental Information

Schedule of Employer Contributions

Fiscal Year Ended <u>June 30,</u>	<u>Annual Required Contributions</u>	<u>Percentage Contributed</u>
2009	37 708	54.26
2010	37 748	79.43
2011	57 366	52.27
2012	53 292	56.27
2013	56 422	60.62
2014	57 928	80.88

Notes to the Required Schedules

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

Valuation date	December 31, 2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	18 years
Asset valuation method	Market value
Actuarial assumptions:	
Investment rate of return*	5.0%
Projected salary increases*	4.25 - 7.85%
*Includes inflation at	3.00%

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, 2014

	2014		Variance Positive (Negative)
	<u>Budget</u>	<u>Actual</u>	
Revenues:			
Ad valorem taxes:			
Current year	\$ 2 639 359	\$ 3 013 577	\$ 374 218
Prior years	64 000	65 525	1 525
Penalties and interest	<u>15 000</u>	<u>16 705</u>	<u>1 705</u>
	<u>2 718 359</u>	<u>3 095 807</u>	<u>377 448</u>
Other taxes and licenses:			
Local option sales taxes	555 238	584 384	29 146
Privilege licenses	500	741	241
Fire district tax	13 844	13 456	(388)
Sales tax refund	<u> </u>	<u>2 411</u>	<u>2 411</u>
	<u>569 582</u>	<u>600 992</u>	<u>31 410</u>
Unrestricted intergovernmental:			
Utility franchise tax	386 400	567 849	181 449
Telecommunications sales tax	95 900	140 867	44 967
Piped natural gas tax	26 600	39 116	12 516
Video programming sales tax	27 600	40 481	12 881
Court costs and fees	3 000	3 879	879
Beer and wine tax	33 000	32 523	(477)
Hold harmless revenue	174 358	202 773	28 415
Policing subsidies and fees	30 000	34 041	4 041
ABC profit distributions	60 000	77 635	17 635
Payments-in-lieu	<u>6 000</u>	<u>14 067</u>	<u>8 067</u>
	<u>842 858</u>	<u>1 153 231</u>	<u>310 373</u>
Restricted intergovernmental:			
Powell Bill allocation	240 000	245 539	5 539
Controlled substance tax	<u> </u>	10 556	10 556
Police grant - vests	3 685	3 983	298
On-behalf of payments-fire retirement	14 000	6 081	(7 919)
ABC allocations	<u> </u>	6 439	6 439
State Fire Fund	6 000	6 327	327
Solid waste disposal	<u>5 000</u>	<u>4 543</u>	<u>(457)</u>
	<u>268 685</u>	<u>283 468</u>	<u>14 783</u>
Permits and fees:			
Building permits	25 000	22 188	(2 812)
Code enforcement fees	<u>5 500</u>	<u>1 938</u>	<u>(3 562)</u>
	<u>30 500</u>	<u>24 126</u>	<u>(6 374)</u>
Sales and services:			
Recreation department	259 635	259 792	157
Waste collection fees	1 010 000	980 349	(29 651)
Cemetery lots	2 000	12 700	10 700
Fire protection fees	4 000	5 174	1 174
Other sales and services	<u>18 000</u>	<u>16 625</u>	<u>(1 375)</u>
	<u>1 293 635</u>	<u>1 274 640</u>	<u>(18 995)</u>

TOWN OF FOREST CITY, NORTH CAROLINA
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2014

	2014		Variance Positive (Negative)
	Budget	Actual	
Investment earnings	\$ 70 517	\$ 105 558	\$ 35 041
Miscellaneous:			
Rents	47 900	50 481	2 581
Contributions - local	15 280	14 762	(518)
Other	1 000	17 426	16 426
	<u>64 180</u>	<u>82 669</u>	<u>18 489</u>
Total revenues	<u>5 858 316</u>	<u>6 620 491</u>	<u>762 175</u>
Expenditures:			
General government:			
Governing body:			
Salaries and benefits		54 813	
Materials and supplies		1 920	
Repairs and maintenance		674	
Insurance		8 137	
Economic Development incentive		1 260 607	
Other		<u>11 351</u>	
	1 353 945	<u>1 337 502</u>	16 443
Administration:			
Salaries and benefits		347 273	
Materials and supplies		60 673	
Repairs and maintenance		86 358	
Other		119 718	
Capital outlay		<u>13 000</u>	
	648 949	<u>627 022</u>	21 927
Finance and legal:			
Salaries and benefits		272 470	
Professional fees		27 235	
Materials and supplies		8 499	
Repairs and maintenance		40 131	
Other		<u>19 983</u>	
	405 856	<u>368 318</u>	37 538
Planning and code enforcement:			
Salaries and benefits		342 086	
Materials and supplies		8 255	
Repairs and maintenance		5 847	
Other		120 713	
Capital outlay		<u>17 918</u>	
	583 952	<u>494 819</u>	89 133

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, 2014

	2014		Variance Positive (Negative)
	Budget	Actual	
Public buildings:			
Repairs and maintenance	\$	\$ 7 534	\$
Utilities		3 182	
Insurance		1 266	
Other		6 732	
	289 191	18 714	270 477
Debt service:			
Principal		34 548	
Interest		1 196	
	50 153	35 744	14 409
Total general government	3 332 046	2 882 119	449 927
Public safety:			
Police:			
Salaries and benefits		2 115 434	
Automotive supplies and repair		111 083	
Insurance		40 684	
Uniforms		23 055	
Repairs and maintenance		51 778	
Other		106 886	
Capital outlay		49 579	
	2 603 174	2 498 499	104 675
Fire:			
Salaries and benefits		920 298	
Insurance		37 207	
Materials and supplies		25 758	
On-behalf payments		6 081	
Repairs and maintenance		17 422	
Other		76 014	
Capital outlay		27 915	
	1 236 113	1 110 695	125 418
Total public safety	3 839 287	3 609 194	230 093
Transportation:			
Streets and highways:			
Salaries and benefits		560 329	
Utilities		92 662	
Materials and supplies		72 902	
Repairs and maintenance		255 154	
Other		29 342	
Capital outlay		37 677	
	1 108 173	1 048 066	60 107
Warehouse and garage:			
Salaries and benefits		155 130	
Repairs and maintenance		13 554	

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, 2014

	2014		Variance Positive (Negative)
	Budget	Actual	
Supplies	\$	\$ 22 617	\$
Other		29 703	
Capital outlay		<u>46 751</u>	
Total transportation	<u>297 486</u>	<u>267 755</u>	<u>29 731</u>
	<u>1 405 659</u>	<u>1 315 821</u>	<u>89 838</u>
Environmental protection:			
Supplies		7 507	
Contract services		1 003 775	
Landfill fee		<u>7 794</u>	
Total environmental protection	<u>1 057 000</u>	<u>1 019 076</u>	<u>37 924</u>
Cultural and recreational:			
Parks and recreation:			
Salaries and benefits		787 760	
Supplies		145 902	
Repairs and maintenance		96 060	
Other		194 571	
Debt service:			
Principal		199 992	
Interest		38 448	
Capital outlay		<u>206 901</u>	
	<u>1 767 128</u>	<u>1 669 634</u>	<u>97 494</u>
Library:			
Salaries and benefits		96 207	
Supplies		17 415	
Repairs and maintenance		7 956	
Other		<u>18 867</u>	
	<u>144 704</u>	<u>140 445</u>	<u>4 259</u>
Total cultural and recreational	<u>1 911 832</u>	<u>1 810 079</u>	<u>101 753</u>
Cemetery:			
Supplies		3 523	
Repairs and maintenance		1 022	
Other		453	
Capital outlay		<u>7 673</u>	
Total cemetery	<u>19 200</u>	<u>12 671</u>	<u>6 529</u>
Contingency	<u>156 480</u>	<u>-</u>	<u>156 480</u>
Total expenditures	11 721 504	10 648 960	1 072 544
Revenues under expenditures	<u>(5 863 188)</u>	<u>(4 028 469)</u>	<u>1 834 719</u>

TOWN OF FOREST CITY, NORTH CAROLINA
General Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2014

	2014		Variance Positive (Negative)
	Budget	Actual	
Other financing sources:			
Operating transfers from Enterprise Funds	\$ 4 686 501	\$ 4 686 501	\$ -
Contribution - real estate proceeds - net	290 000	267 860	(22 140)
Sale of fixed assets	87 000	75 159	(11 841)
Installment note issued	503 363	413 517	(89 846)
Fund balance appropriated	<u>296 324</u>	<u> </u>	<u>(296 324)</u>
	<u>5 863 188</u>	<u>5 443 037</u>	<u>(420 151)</u>
Revenues and other financing sources over expenditures	<u>\$ -</u>	<u>1 414 568</u>	<u>\$1 414 568</u>
Fund balance:			
Beginning of year		<u>4 615 844</u>	
End of year		<u>\$ 6 030 412</u>	

TOWN OF FOREST CITY, NORTH CAROLINA
 Schedule of Revenues and Expenditures -
 Budget and Actual (Non-GAAP)
 Capital Projects Fund
 From Inception and for the Year Ended June 30, 2014

	Project Authorization	Actual		Total To Date	Variance Positive (Negative)
		Prior Years	Current Year		
Oak Street Sidewalk Project:					
Revenue:					
Restricted intergovernmental:					
State grant:					
North Carolina Department of Transportation					
	\$100 000	\$ -	\$ -	\$ -	\$(100 000)
Expenditures:					
Construction					
	<u>133 000</u>	<u>33 000</u>	<u>-</u>	<u>33 000</u>	<u>100 000</u>
Expenditures over revenue					
	(33 000)	(33 000)	-	(33 000)	-
Other financing sources:					
Town contribution					
	<u>33 000</u>	<u>33 000</u>	<u>-</u>	<u>33 000</u>	<u>-</u>
Revenue and other financing sources over expenditures - Project					
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenue and other financing sources over expenditures - Fund					
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Electric Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2014

	2014		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Electricity sales	\$11 960 000	\$12 033 208	\$ 73 208
Late payment penalties	260 000	235 121	(24 879)
Tap and connection fees	1 000	1 241	241
Reconnection and transfer fees	5 000	5 711	711
Cable pole fees	13 280	13 280	
Other operating revenue	<u>12 500</u>	<u>22 644</u>	<u>10 144</u>
	12 251 780	12 311 205	59 425
Nonoperating revenue:			
Interest earnings	<u>55 000</u>	<u>51 148</u>	<u>(3 852)</u>
Total revenues	<u>12 306 780</u>	<u>12 362 353</u>	<u>55 573</u>
Expenditures:			
Administration:			
Salaries and benefits		93 944	
Credit card fees		43 305	
Other		<u>28 887</u>	
	283 756	<u>166 136</u>	117 620
Operations:			
Salaries and benefits		449 095	
Supplies		166 176	
Generator fuel		247 496	
Repairs and maintenance		275 193	
Other		<u>69 512</u>	
	1 792 354	<u>1 207 472</u>	584 882
Electric power purchased	7 140 000	<u>6 497 018</u>	642 982
Capital outlay:			
Equipment	560 000	<u>558 860</u>	1 140
Contingency	<u>15 325</u>		<u>15 325</u>
Total expenditures	<u>9 791 435</u>	<u>8 429 486</u>	<u>1 361 949</u>
Revenues over expenditures	<u>2 515 345</u>	<u>3 932 867</u>	<u>1 417 522</u>

TOWN OF FOREST CITY, NORTH CAROLINA

Electric Fund

Schedule of Revenues and Expenditures

Budget and Actual (Non-GAAP)

For the Fiscal Year Ended June 30, 2014

	<u>2014</u>		
	<u>Budget</u>	<u>Actual</u>	Variance Positive (Negative)
Other financing sources (uses):			
Transfers to other funds:			
General Fund	\$(3 515 345)	\$(3 515 345)	\$
Fund balance appropriated	<u>1 000 000</u>	<u> </u>	<u>(1 000 000)</u>
	<u>(2 515 345)</u>	<u>(3 515 345)</u>	<u>(1 000 000)</u>
Revenue under expenditures and other financing uses	\$ -	<u>417 522</u>	\$ <u>417 522</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		558 860	
Depreciation		<u>(453 153)</u>	
		<u>105 707</u>	
Change in net position		\$ <u>523 229</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, 2014

	<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, 2014

	2014		Variance Positive (Negative)
	Budget	Actual	
Revenues:			
Operating revenues:			
Water sales	\$ 3 320 000	\$ 3 141 894	\$ (178 106)
Sewer charges	1 296 000	1 345 887	49 887
Tap and connection fees	35 000	36 365	1 365
Other	<u>37 000</u>	<u>54 313</u>	<u>17 313</u>
	4 688 000	4 578 459	(109 541)
Nonoperating revenues:			
Interest	<u>110 000</u>	<u>110 081</u>	<u>81</u>
Total revenues	<u>4 798 000</u>	<u>4 688 540</u>	<u>(109 460)</u>
Expenditures:			
Administration:			
Salaries and benefits		240 881	
Supplies		48 474	
Repairs and maintenance		14 865	
Other		<u>14 718</u>	
	<u>359 843</u>	<u>318 938</u>	<u>40 905</u>
Water operations:			
Salaries and benefits		317 663	
Supplies		171 479	
Repairs and maintenance		25 140	
Other		<u>35 632</u>	
	<u>797 339</u>	<u>549 914</u>	<u>247 425</u>
Water plant:			
Salaries and benefits		357 478	
Supplies		107 399	
Repairs and maintenance		49 594	
Utilities		94 003	
Other		<u>36 742</u>	
	<u>688 673</u>	<u>645 216</u>	<u>43 457</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, 2014

	2014		Variance Positive (Negative)
	Budget	Actual	
Sewer Operations:			
Salaries and benefits	\$	\$ 161 677	\$
Supplies		22 131	
Repairs and maintenance		97 087	
Other		28 324	
	<u>493 386</u>	<u>309 219</u>	<u>184 167</u>
Waste treatment plants:			
Salaries and benefits		348 693	
Supplies		87 487	
Utilities		162 331	
Repairs and maintenance		49 758	
Other		74 447	
	<u>971 311</u>	<u>722 716</u>	<u>248 595</u>
Pump station and storage:			
Salaries and benefits		207 891	
Supplies		16 250	
Utilities		101 607	
Repairs and maintenance		141 170	
Other		17 839	
	<u>493 702</u>	<u>484 757</u>	<u>8 945</u>
Capital outlay:			
Administration	10 000	9 580	420
Water operations	175 000	171 141	3 859
Waste treatment plants	61 000	60 211	789
	<u>246 000</u>	<u>240 932</u>	<u>5 068</u>
Contingency	<u>32 646</u>		<u>32 646</u>
Total expenditures	<u>4 082 900</u>	<u>3 271 692</u>	<u>811 208</u>
Revenues over expenditures	<u>715 100</u>	<u>1 416 848</u>	<u>701 748</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, 2014

	2014		Variance Positive (Negative)
	Budget	Actual	
Other financing sources (uses):			
Operating transfer:			
To General Fund	\$ (1 171 156)	\$ (1 171 156)	\$
To Capital Project	(19 572)	(19 572)	
Sale of fixed assets		5 927	5 927
Economic development loan principal payments	97 143	73 129	(24 014)
Fund balance appropriated	378 485		(378 485)
	<u>(715 100)</u>	<u>(1 111 672)</u>	<u>(396 572)</u>
Revenue and other sources over expenditures	\$ -	<u>305 176</u>	\$ <u>305 176</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Capital outlay		240 932	
Loan principal received		(73 129)	
Depreciation		(1 301 949)	
Capital Project Fund:			
State and Federal grants received		1 099 410	
State loan/grant - principal		(492 847)	
Expenditures not capitalized		(323 667)	
Transfer to Capital Project Fund		19 572	
		<u>(831 678)</u>	
Change in net position		\$ (526 502)	

TOWN OF FOREST CITY, NORTH CAROLINA
Water Sewer Capital Project Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
From Inception and for the Year Ended June 30, 2014

	Project Authorization	Actual			Variance Positive (Negative)
		Prior Years	Current Year	Total To Date	
Broad River Water Sewer Project:					
Revenues:					
Restrictive Intergovernmental:					
Federal Grant:					
Community Development Block Grant through N.C. Department of Commerce through Rutherford County					
	\$ 960 000	\$ 825 349	\$ 132 420	\$ 957 769	\$ (2 231)
State grants:					
Rural Development Center, Inc.					
	1 000 000	828 587	19 032	847 619	(152 381)
N.C. Department of Commerce - Industrial Development Fund					
	<u>500 000</u>	<u>487 456</u>	<u>12 544</u>	<u>500 000</u>	
	<u>2 460 000</u>	<u>2 141 392</u>	<u>163 996</u>	<u>2 305 388</u>	<u>(154 612)</u>
Expenditures:					
Technical services					
	321 000	313 532		313 532	7 468
Grant administration					
	26 000	20 777	5 223	26 000	
Water construction					
	1 375 839	1 379 880	(56 477)	1 323 403	52 436
Sewer construction					
	567 119	457 203	109 916	567 119	
Contingency					
	<u>220 042</u>	<u>20 000</u>	<u>105 334</u>	<u>125 334</u>	<u>94 708</u>
	<u>2 510 000</u>	<u>2 191 392</u>	<u>163 996</u>	<u>2 355 388</u>	<u>154 612</u>
Revenues under expenditures					
	(50 000)	(50 000)	-	(50 000)	-
Other financing source:					
Water Sewer Fund transfer					
	<u>50 000</u>	<u>50 000</u>		<u>50 000</u>	
Revenues and other financing source over expenditures - Project Total					
	\$ -	\$ -	\$ -	\$ -	\$ -
Central Business District Sewer Rehabilitation:					
Revenue:					
Restrictive Intergovernmental:					
State Grant:					
North Carolina Department of Environmental and Natural Resources					
Loan/Loan Forgiveness					
	<u>935 414</u>	<u>-</u>	<u>935 414</u>	<u>935 414</u>	<u>-</u>
Expenditures:					
Professional services					
	148 196	90 911	57 285	148 196	
Construction					
	787 218		787 218	787 218	
Contingency					
	<u>18 884</u>	<u>-</u>	<u>18 884</u>	<u>18 884</u>	<u>-</u>
	<u>954 298</u>	<u>90 911</u>	<u>863 387</u>	<u>954 298</u>	<u>-</u>
Expenditures (over) under revenue					
	<u>(18 884)</u>	<u>(90 911)</u>	<u>72 027</u>	<u>(18 884)</u>	<u>-</u>

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

TOWN OF FOREST CITY, NORTH CAROLINA
Water Sewer Capital Project Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
From Inception and for the Year Ended June 30, 2014

	Project Authorization	Actual		Total To Date	Variance Positive (Negative)
		Prior Years	Current Year		
Other financing sources:					
Water-Sewer Fund Contribution	\$ 18 884	\$	\$ 18 884	\$ 18 884	\$
Water-Sewer Fund Advance		90 911	(90 911)		
	<u>18 884</u>	<u>90 911</u>	<u>(72 027)</u>	<u>18 884</u>	<u>-</u>
Revenues and other financing sources over expenditures - Project Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Local Industry Building Rehabilitation:					
Revenue:					
Restrictive Intergovernmental:					
Federal grant:					
Community Development Block Grant: passed through North Carolina Department of Commerce	<u>750 000</u>	<u>750 000</u>	<u>-</u>	<u>750 000</u>	<u>-</u>
Expenditures:					
Reimburse industrial recipient for approved construction costs	750 000	750 000		750 000	
Grant administration	<u>10 000</u>	<u>9 268</u>	<u>732</u>	<u>10 000</u>	
	<u>760 000</u>	<u>759 268</u>	<u>732</u>	<u>760 000</u>	<u>-</u>
Expenditures over Revenue	(10 000)	(9 268)	(732)	(10 000)	
Other financing source:					
Water-Sewer Fund contribution	<u>10 000</u>	<u>9 268</u>	<u>732</u>	<u>10 000</u>	<u>-</u>
Revenue and other financing source over expenditures - Project Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Revenue and other financing sources over expenditures - Fund Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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, 2014

Year of <u>Levy</u>	Uncollected Balance <u>June 30, 2013</u>	<u>Additions</u>	<u>Collections and Credits</u>	Uncollected Balance <u>June 30, 2014</u>
2013	\$	\$3 100 443	\$3 029 948	\$ 70 495
2012	74 589		41 833	32 756
2011	32 908		11 277	21 631
2010	19 163		5 828	13 335
2009	10 128		3 419	6 709
2008	9 741		2 638	7 103
2007	6 201		485	5 716
2006	5 356		365	4 991
2005	4 061		210	3 851
2004	2 946		104	2 842
2003	<u>2 860</u>		<u>2 860</u>	
	<u>\$167 953</u>	<u>\$3 100 443</u>	<u>\$3 098 967</u>	169 429
Less allowance for doubtful accounts				<u>52 600</u>
Ad Valorem Taxes receivable - net				<u><u>\$116 829</u></u>
Reconciliation with revenue:				
Ad valorem taxes - General Fund			\$3 095 807	
Discounts allowed		\$10 594		
Releases		6 411		
Penalties and interest collected		(16 705)		
Taxes written off		<u>2 860</u>	<u>3 160</u>	
			<u><u>\$3 098 967</u></u>	

TOWN OF FOREST CITY, NORTH CAROLINA

Analysis of Current Tax Levy

Town-Wide Levy

For the Fiscal Year Ended June 30, 2014

	<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	\$1 069 118 276	.29	\$3 100 443	\$2 964 387	\$136 056
	<u> </u>	<u> </u>			
Uncollected taxes at June 30, 2014			<u>70 495</u>	<u>59 383</u>	<u>11 112</u>
Current year's taxes collected and credited			<u>\$3 029 948</u>	<u>\$2 905 004</u>	<u>\$124 944</u>
Current levy collection percentage			<u>97.73%</u>	<u>98.00%</u>	<u>91.83%</u>

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, 2014, 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 6, 2014. 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 6, 2014

Report On Compliance For Each Major State Program; Report On Internal Control Over Compliance; In accordance with OMB Circular A-133; and the State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major State Program

I have audited the Town of Forest City, North Carolina's compliance with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on the Town of Forest City's major state program for the year ended June 30, 2014. The Town of Forest City's major state program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its state programs.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for the Town of Forest City's major state program based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and applicable sections of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about the Town of Forest City's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for the major state program. However, my audit does not provide a legal determination of the Town of Forest City's compliance.

Opinion on Major Program

In my opinion, the Town of Forest City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major State program for the year ended June 30, 2014.

Report on Internal Control Over Compliance

Management of the Town of Forest City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered the Town of Forest City's internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing my opinion on compliance for each major state program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of the Town of Forest City's internal control over compliance.

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

My consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses. I did not identify any deficiencies in internal control over compliance that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.



November 6, 2014

TOWN OF FOREST CITY, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Fiscal Year Ending June 30, 2014

Section I. Summary of Auditor's Results

Financial Statements

Type of Auditor's report issued Unqualified

Internal control over financing reporting:

. Material weakness identified? _____ yes X no

. Significant deficiency identified that is not considered to be material weakness _____ yes X none reported

Noncompliance material to financial statements noted _____ yes X no

State Awards

Internal control over major State programs?

. Material weaknesses identified _____ yes X no

. Significant deficiencies identified that are not considered to be material weaknesses? _____ yes X none reported

Type of auditor's report issued on compliance for major State programs: Unqualified

Any findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133 _____ yes X no

Major program:

North Carolina Department of Environment and Natural Resources - Clean Water State Revolving Fund - Sewer Rehabilitation

Dollar threshold used to distinguish between Type A and Type B Programs \$300 000

Auditee qualified as low-risk auditee? _____ yes X no

TOWN OF FOREST CITY, NORTH CAROLINA

Schedule of Findings and Questioned Costs

For the Fiscal Year Ending June 30, 2014

Section II. Financial Statement Findings

None reported

Section III. State Award Findings and Questioned Costs

None reported

TOWN OF FOREST CITY, NORTH CAROLINA
 Schedule of Expenditures of State Awards
 For the Year Ended June 30, 2014

<u>Grantor/Pass-Through Grantor/Program Title</u>	<u>State Pass-Through Grantor's Number</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
State Grants:			
Cash Programs			
<u>N.C. Department of Transportation</u>			
Powell Bill	38570	\$ 212 936	\$ -
Rural Economic Development Center, Inc.	2011-218 40401-107	19 031	-
<u>N.C. Department of Commerce</u>			
Industrial Development Fund - Utility Account			
Horsehead Sewer Improvements	U-426	12 544	-
<u>N.C. Department of Environmental and Natural Resources</u>			
Clean Water State Revolving Fund			
Central Business District Sewer Rehabilitation	CS-370626-03	863 387	18 840
<u>Rural Economic Development Center, Inc.</u>			
Project Chrysalis Water, Sewer, & Drainage Construction Horsehead	11-218- 40401-107	<u>132 420</u>	<u>-</u>
Total assistance		<u>\$1 240 318</u>	<u>\$ 18 840</u>

Notes to the Schedule of Expenditures of State Financial Awards

- The above schedule of expenditures of state awards includes State grant activity of the Town of Forest City and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the State Single Audit Implementation Act. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.
- Loans Outstanding
 The Town of Forest City had the following loan balances outstanding at June 30, 2014. These loan balances outstanding are also included in the state expenditures presented in the above schedule.

<u>Program Title</u>	<u>State Pass-Through Grantor's Number</u>	<u>Amount Outstanding</u>
Sewer Revolving Loan	SRF# CS370- 626-03	<u>\$492 847</u>