

Town of Rutherfordton, North Carolina



Financial Statements For the Year Ended June 30, 2015

Town of Rutherfordton, North Carolina

Council Members

Jimmy Dancy, Mayor

Henry C. Giles, Jr.

Christy Bare

Terry D. Cobb

Stanley L. Clements

Town Manager

Doug Barrick

Financial Director

Thaddeus Hodge

Town of Rutherfordton, North Carolina

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**GOULD KILLIAN
CPA GROUP, P.A.**
CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of the Town of Rutherfordton, North Carolina, as of and for the year ended June 30, 2015, 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

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Town of Rutherfordton ABC Board. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Rutherfordton ABC Board, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town of Rutherfordton ABC Board, Norris Library Foundation, Inc., and Rutherfordton Town Revitalization, Inc., 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, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, and each major fund of the Town of Rutherfordton, North Carolina, as of June 30, 2015, and the respective changes in financial position and cash flows, where appropriate, thereof and the 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 on pages 4 through 12, the Law Enforcement Officers' Special Separation Allowance Schedule of Funding Progress and Schedule of Employer Contributions on page 50, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 52 and 53, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Rutherfordton, North Carolina. The combining and individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of State Awards, as required by 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures performed as described above, the individual fund statements, budgetary schedules, other schedules, and the Schedule of Expenditures of State Awards 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*, we have also issued our report dated November 30, 2015 on our consideration of the Town of Rutherfordton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of the report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Rutherfordton's internal control over financial reporting and compliance.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
November 30, 2015

Management's Discussion and Analysis

As management of the Town of Rutherfordton (the Town), we offer readers of the Town of Rutherfordton's financial statements this narrative overview and analysis of the financial activities of the Town of Rutherfordton for the fiscal year ended June 30, 2015. 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

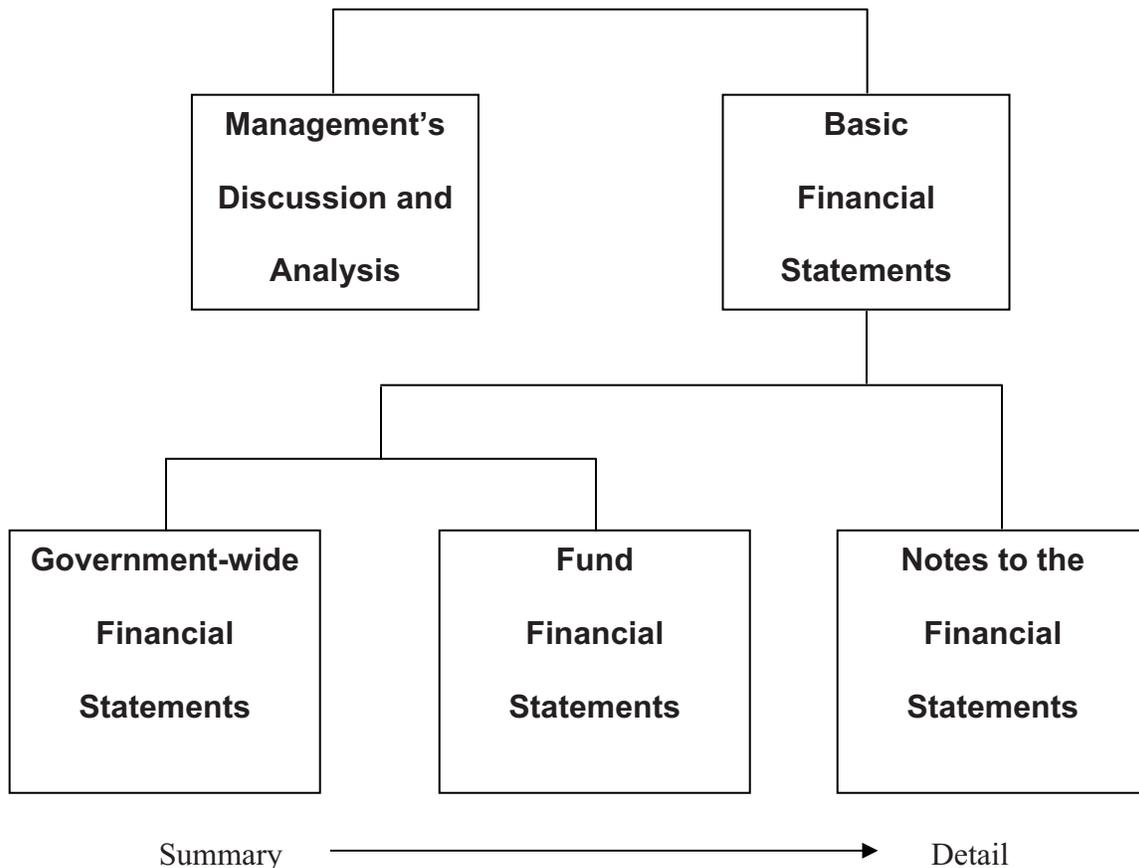
- The assets and deferred outflows of resources of the Town of Rutherfordton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$13,548,782 (net position).
- The government's total net position increased by \$784,337 due to increases in the business-type activities net position. Business-type activities net position increased by \$800,690, primarily as a result of capital contributions.
- As of the close of the current fiscal year, the Town's governmental funds (General Fund and Recreation Trust Fund) reported combined ending fund balances of \$3,087,716 which represents an decrease of \$381,880 in comparison with the prior year. Approximately fifty-six percent of this total amount, or \$1,728,669, is available for spending at the government's discretion (unassigned fund balance). The major reason for the decrease was use of fund balance for capital improvements. The Recreation Trust Fund experienced small loss due (\$11,131) due to change in investment value.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,728,669 or 44 percent of total general fund expenditures for the fiscal year. This is a decrease of \$91,531, primarily driven by budgeted use of fund balance to cover expenditures. The amount of fund balance used actually came in under budget due to savings throughout the budget.
- The outstanding debt for the Town is \$735,762, a net decrease of \$100,261 (12%) from the prior year. There were principal payments of outstanding debt of \$100,261.
- The Sewer Enterprise Fund's financial performance was close to budget with revenues coming in above budget and expenditures coming in less than predicted, resulting in an addition to fund balance. A large portion of the budget was a grant-funded project that covered the installation of new sewer lines to service Tryon International Equestrian Center.

Overview of the Financial Statements

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

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town of Rutherfordton’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 funds statements; 2) the budgetary comparison statements, and 3) the proprietary fund statements.

The next section of the basic financial statements is the notes. The notes to the financial statements explain in detail some of the data contained in those statements. After the notes, individual fund statements and schedules are 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 they have 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 and grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the sewer services offered by the Town of Rutherfordton. There are three component units of the Town of Rutherfordton: The Town of Rutherfordton ABC Board, Rutherfordton Town Revitalization (RTR), and Norris Public Library. While the Town council appoints all members to the ABC Board and controls the distribution of its profits, the Town's involvement in the other two component units is significantly less. The Town appoints only 2 out of 14 members of the RTR Board and does not appoint any member of the Library Board.

The government-wide financial statements are on 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 Rutherfordton, 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 Rutherfordton 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 readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* that 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 a part of the fund financial statements.

The Town of Rutherfordton 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 Council 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 council; 2) the final budget as amended by the council; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges.

Proprietary Funds – The Town of Rutherfordton has one *Enterprise Fund*. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses an enterprise fund to account for its sewer operations. This fund is the same as that function 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 are on pages 25 through 50 of this report.

Interdependence with Other Entities – The Town depends on financial resources flowing from, or associated with, both the Federal Government and the State of North Carolina. Because of this dependency, the Town is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

Government-wide Financial Analysis

The Town of Rutherfordton’s Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
		(Restated)				(Restated)
Current and other assets	\$ 3,639,718	\$ 4,223,400	\$ 603,875	\$ 509,214	\$ 4,243,593	\$ 4,732,614
Capital assets	4,033,745	3,889,697	6,884,170	6,263,333	10,917,915	10,153,030
Deferred outflows of resources	115,775	107,555	-	-	115,775	107,555
Total assets and deferred outflows of resources	7,789,238	8,220,652	7,488,045	6,772,547	15,277,283	14,993,199
Long-term liabilities	679,862	1,170,618	311,550	407,814	991,412	1,578,432
Other liabilities	224,340	588,313	61,598	50,526	285,938	638,839
Deferred inflows of resources	451,151	11,483	-	-	451,151	11,483
Total liabilities and deferred inflows of resources	1,355,353	1,770,414	373,148	458,340	1,728,501	2,228,754
Net position:						
Net investment in capital assets	3,657,667	3,461,488	6,524,486	5,855,519	10,182,153	9,317,007
Restricted	1,197,376	1,463,138	-	-	1,197,376	1,463,138
Unrestricted	1,578,842	1,525,612	590,411	458,688	2,169,253	1,984,300
Total net position	\$ 6,433,885	\$ 6,450,238	\$ 7,114,897	\$ 6,314,207	\$ 13,548,782	\$ 12,764,445

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 resources of the Town of Rutherfordton exceeded liabilities by \$13,548,782 as of June 30, 2015. The Town's net position increased by \$784,337 for the fiscal year ended June 30, 2015. The largest portion (75%) reflects the Town's investment in capital assets, less any related debt still outstanding that was issued to acquire those items. The Town of Rutherfordton uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position (9%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,169,253 (16%) is unrestricted.

The Town has restated its beginning net position by \$534,336 in relation to two liabilities not previously reported in prior financial statements. First, the Town has reduced the beginning net position by \$257,374 to reflect the Town's net liability related to the Law Enforcement Officers Special Separation Allowance. Second, the Town implemented GASB Statement 68 this year. With this new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$276,962. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town of Rutherfordton's management.

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

- Increased efficiency recognized in various different departments through a change in management strategy;
- Aggressive and successful pursuit of partnership and grant opportunities;
- Continued diligence by department heads in monitoring every line item and searching for ways to reduce costs while continuing to provide expected levels of service.

The Town of Rutherfordton's Net Position
Figure 3

	Governmental Activities		Business-Type Activities		Total	
	2015	2014 (Restated)	2015	2014	2015	2014 (Restated)
Revenues:						
Program revenues:						
Charges for services	\$ 309,350	\$ 320,431	\$ 785,448	\$ 697,442	\$ 1,094,798	\$ 1,017,873
Operating grants and contributions	258,100	194,607	-	17,500	258,100	212,107
Capital grants and contributions	-	606,700	760,911	-	760,911	606,700
General revenues:						
Property taxes	1,885,360	1,809,174	-	-	1,885,360	1,809,174
Unrestricted intergovernmental	1,107,231	1,006,750	-	-	1,107,231	1,006,750
Other taxes	57,274	59,950	-	-	57,274	59,950
Other	33,245	107,276	27,872	120	61,117	107,396
Total revenues	3,650,560	4,104,888	1,574,231	715,062	5,224,791	4,819,950
Expenses:						
General government	679,327	563,153	-	-	679,327	563,153
Public safety	1,626,356	1,565,291	-	-	1,626,356	1,565,291
Transportation and environmental pro	1,136,058	913,369	-	-	1,136,058	913,369
Cultural and recreation	215,739	306,470	-	-	215,739	306,470
Interest on long-term debt	9,433	10,895	-	-	9,433	10,895
Sewer	-	-	773,541	717,736	773,541	717,736
Total expenses	3,666,913	3,359,178	773,541	717,736	4,440,454	4,076,914
Change in net position	(16,353)	745,710	800,690	(2,674)	784,337	743,036
Special items - assets for distribution to local fire departments	-	(463,948)	-	-	-	(463,948)
Increase (decrease) in net position	(16,353)	281,762	800,690	(2,674)	784,337	279,088
Net position, July 1 as previously reported	6,450,238	6,702,812	6,314,207	6,316,881	12,764,445	13,019,693
Restatement	-	(534,336)	-	-	-	(534,336)
Net position, July 1, restated	6,450,238	6,168,476	6,314,207	6,316,881	12,764,445	12,485,357
Net position, June 30	\$ 6,433,885	\$ 6,450,238	\$ 7,114,897	\$ 6,314,207	\$ 13,548,782	\$ 12,764,445

Financial Analysis of the Town's Fund

Governmental Funds. The focus of the Town's governmental fund is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements.

The General Fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town's fund balance available in the General Fund was \$1,728,669, while total fund balance was \$2,525,124. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total fund expenditures. The Town currently has an available fund balance of 44% percent of total General Fund expenditures, while total fund balance represents 64% percent of that same amount.

General Fund Budgetary Highlights – During the fiscal year, the Town revised the budget on twenty-four occasions. Generally, budget amendments fall into one of three categories: 1) amendments made to adjust the estimates that are used to prepare the original budget ordinance once exact information is available; 2) amendments made to recognize new funding amounts from external sources, such as Federal and State grants; and 3) increases in appropriations that become necessary to maintain services. Total amendments to the General Fund were \$629,236. The most significant amendments were to budget \$248,000 of Powell Bill funds for infrastructure improvements; \$182,288 to provide salary increases and recognize additional ad valorem tax revenue; \$35,000 for repairs to a fire engine; and \$37,566 to recognize insurance proceeds and replace a damaged vehicle.. There was \$385,868 in budget amendments that came from fund balance. The most significant of those amendments were: \$248,000 for Powell Bill expenses; \$35,000 for fire engine repairs; \$20,000 to upgrade the Town's website; \$20,000 to replaced the damaged vehicle; and \$14,000 for computer software upgrades.

Proprietary Funds – The Town's proprietary fund provides the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Sewer Fund at the end of the fiscal year amounted to \$590,412– an increase of \$131,724. The total increase in net position occurring in the fiscal year for the Sewer Fund was \$800,690. During the fiscal year, there was one budget amendment affecting the sewer fund. One million dollars were budgeted to receive and expend grant funds to build a sewer line to the Tryon Equestrian Center in Polk County.

Capital Asset and Debt Administration

Capital Assets – The Town's investment in capital assets for its governmental and business-type activities as of June 30, 2015, totals \$10,917,915 (net of accumulated depreciation). These assets include buildings, land, improvements, equipment, recreation facilities, collection systems and vehicles.

Major capital asset transactions during the year include the following additions:

- Construction of a sewer line and pump station for the Tryon Equestrian Center in Polk County for \$885,911.
- Purchase of \$46,975 of software and computer upgrades.
- Purchase of four new police vehicles for \$119,822.
- Construction of the Purple Martin Greenway for \$50,850.
- Repairs to Honeysuckle Drive (\$52,200) and Collett Street (\$57,960).

Town of Rutherfordton's Capital Assets
Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 249,274	\$ 249,274	\$ 18,750	\$ 18,750	\$ 268,024	\$ 268,024
Capital projects in process	-	10,027	-	-	-	10,027
Building and improvements	6,380,657	6,001,138	-	-	6,380,657	6,001,138
Equipment	3,461,162	3,312,753	195,624	195,624	3,656,786	3,508,377
Pump stations/sewer collection systems	-	-	5,291,801	4,405,890	5,291,801	4,405,890
Wastewater treatment plant	-	-	5,092,691	5,092,691	5,092,691	5,092,691
Streets	-	-	6,460	6,460	6,460	6,460
Total	10,091,093	9,573,192	10,605,326	9,719,415	20,696,419	19,292,607
Accumulated depreciation	(6,057,348)	(5,683,495)	(3,721,156)	(3,456,082)	(9,778,504)	(9,139,577)
Capital assets, net	\$ 4,033,745	\$ 3,889,697	\$ 6,884,170	\$ 6,263,333	\$ 10,917,915	\$ 10,153,030

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

Long-term Debt

As of June 30, 2015, the Town's long-term debt consisted of total notes payable of \$735,762, all of which is secured by assets of the Town.

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Notes payable	\$ 376,078	\$ 428,209	\$ 359,684	\$ 407,814	\$ 735,762	\$ 836,023

The Town's net debt decreased by \$100,261 during the past fiscal year due to principal payments of outstanding debt.

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. The legal debt margin for the Town is approximately \$26,700,000.

Additional information regarding the Town's long-term debt can be found in the notes of the basic financial statements.

Economic Factors and Next Year's Budgets and Rates

The following are key economic indicators affecting the Town:

- The non-profit hospital located inside the Town limits was privatized in the prior fiscal year. The related business personal property and equipment will be added to the FY 15/16 levy.
- The development of the Tryon International Equestrian Center within 8 miles of the Town limits provided an economic development opportunity. The Town ran sewer lines out to the development site and has a

service contract with the developer that is bringing significant billable flow to the Town's wastewater treatment plant.

- The developer is restarting the "Park Crossing" residential development of 91 patio homes and 44 town homes. The development was started in 2008, but was halted after the downturn in the housing market.
- Trelleborg Coated Systems has begun expansion of its plant that is partially located in the Rutherfordton Town limits. The Company is planning on investing \$10 million dollars over four years and adding 76 jobs.
- The Rutherford County Tourism Asset Foundation has approached the town and asked the town to purchase the Historic Bechtler House in Downtown Rutherfordton to preserve the asset. Council has agreed to purchase the House in FY 16/17 and will then sell the house to the Tourism Asset Foundation for \$1. Contributions from the Stonecutter Foundation were partnered with Town funds to purchase the property.
- A challenge grant in the amount of \$50,000 was awarded by the Town to Kidsenses Children's Museum.

Budget Highlights for the Fiscal Year Ending June 30, 2016

Governmental Activities: The tax rate remained at 56.7¢ per \$100 of valuation for FY 15/16 based on the tax values provided by the County. A 2% cost of living adjustment was budgeted to be given to all employees, as well as some merit bonuses and raises as deemed appropriate by the Town Manager. A contract was entered into with Isothermal Planning and Development Commission to provide staff hours to the Town of Rutherfordton for a Town Planner one day per week. Expenditures of note that will be funded by fund balance include: Purchase of the Bechtler House and Kidsenses Children's Museum grant.

Business-type Activities: The sewer fund budget for fiscal year ending June 30, 2016, includes personnel costs of two full-time employees. This change will allow the Town to more accurately show the true costs of operations in this fund. In the past, the Town participated with Rutherford County, Spindale, Forest City, and Lake Lure in a joint sewer study to evaluate the opportunities for possible consolidation of wastewater systems and is still continuing to evaluate possible partnerships. The Town has recently entered into a contract with Tryon International Equestrian Center to provide sewer service to the development. Billable flow for this contract should provide significant revenue for the sewer fund. The Council has mentioned exploring the option of lowering the outside sewer rates to avoid such steep penalties to outside customers.

Requests for Information

This report is designed to provide an overview of the Town 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 Doug Barrick, Town Manager, 129 N. Main Street, Rutherfordton, NC 28139.

BASIC FINANCIAL STATEMENTS

Town of Rutherfordton, North Carolina
Statement of Net Position
June 30, 2015

Exhibit 1

	Primary Government			Component Units		
	Governmental Activities	Business-type Activities	Total	Town of Rutherfordton ABC Board	Town Revitalization, Inc.	Norris Library Foundation, Inc.
ASSETS						
Current assets:						
Cash and investments	\$ 2,032,645	\$ 510,464	\$ 2,543,109	\$ 124,341	\$ 23,870	\$ 102,009
Taxes receivable (net)	237,137	-	237,137	-	-	-
Accounts receivable (net)	2,893	93,411	96,304	-	900	-
Other receivables	19,951	-	19,951	-	-	-
Due from other governments	397,151	-	397,151	-	-	-
Inventories	-	-	-	171,458	-	-
Prepaid items	8,776	-	8,776	5,980	-	-
Restricted:						
Cash and cash equivalents	207,075	-	207,075	-	-	-
Total current assets	<u>2,905,628</u>	<u>603,875</u>	<u>3,509,503</u>	<u>301,779</u>	<u>24,770</u>	<u>102,009</u>
Noncurrent assets:						
Net pension asset	171,498	-	171,498	6,605	-	-
Capital assets:						
Land and other non-depreciable assets	249,274	18,750	268,024	-	-	-
Other capital assets, net of depreciation	3,784,471	6,865,420	10,649,891	27,377	-	-
Total capital assets	<u>4,033,745</u>	<u>6,884,170</u>	<u>10,917,915</u>	<u>33,982</u>	<u>-</u>	<u>-</u>
Restricted assets:						
Endowment fund	562,592	-	562,592	-	-	26,615
Total noncurrent assets	<u>4,767,835</u>	<u>6,884,170</u>	<u>11,652,005</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>7,673,463</u>	<u>7,488,045</u>	<u>15,161,508</u>	<u>335,761</u>	<u>24,770</u>	<u>128,624</u>
DEFERRED OUTFLOWS OF RESOURCES						
Contributions to pension plan in current fiscal year	115,775	-	115,775	3,032	-	-
LIABILITIES						
Current liabilities:						
Accounts payable	143,166	13,464	156,630	69,836	-	-
Current portion of long-term liabilities	81,174	48,134	129,308	-	-	-
Long-term liabilities	679,862	311,550	991,412	-	-	-
Total liabilities	<u>904,202</u>	<u>373,148</u>	<u>1,277,350</u>	<u>69,836</u>	<u>-</u>	<u>-</u>
DEFERRED INFLOWS OF RESOURCES						
Pension deferrals	450,950	-	450,950	16,098	-	-
Prepaid licenses and taxes	201	-	201	-	-	-
Total deferred inflows of resources	<u>451,151</u>	<u>-</u>	<u>451,151</u>	<u>16,098</u>	<u>-</u>	<u>-</u>
NET POSITION						
Net investment in capital assets	3,657,667	6,524,486	10,182,153	33,982	-	-
Restricted for:						
Stabilization by State statute	419,995	-	419,995	-	-	-
Public Safety	9,777	-	9,777	-	-	-
Powell Bill	197,298	-	197,298	-	-	-
Special events	7,714	-	7,714	-	-	-
Recreation:						
Expendable	10,376	-	10,376	-	-	857
Nonexpendable	552,216	-	552,216	-	-	26,615
Working capital	-	-	-	28,429	-	-
Unrestricted	1,578,842	590,411	2,169,253	190,448	24,770	101,152
Total net position	<u>\$ 6,433,885</u>	<u>\$ 7,114,897</u>	<u>\$ 13,548,782</u>	<u>\$ 252,859</u>	<u>\$ 24,770</u>	<u>\$ 128,624</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Statement of Activities
For the Year Ended June 30, 2015

Exhibit 2

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position					
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			Component Units		
					Governmental Activities	Business-type Activities	Total	Town of Rutherfordton ABC Board	Rutherford Town Revitalization, Inc.	Norris Library Foundation, Inc.
Primary government:										
Governmental Activities:										
General government	\$ 679,327	\$ 27,762	\$ 8,132	\$ -	\$ (643,433)	\$ -	\$ (643,433)			
Public safety	1,626,356	252,136	103,937	-	(1,270,283)	-	(1,270,283)			
Transportation and environmental protection	1,136,058	29,452	139,676	-	(966,930)	-	(966,930)			
Cultural and recreational	215,739	-	6,355	-	(209,384)	-	(209,384)			
Interest on long-term debt	9,433	-	-	-	(9,433)	-	(9,433)			
Total governmental activities	3,666,913	309,350	258,100	-	(3,099,463)	-	(3,099,463)			
Business-type activities:										
Sewer	773,541	785,448	-	760,911	-	772,818	772,818			
Total primary government	\$ 4,440,454	\$ 1,094,798	\$ 258,100	\$ 760,911	(3,099,463)	772,818	(2,326,645)			
Component units:										
ABC Board	\$ 1,169,839	\$ 1,154,110	\$ -	\$ -				\$ (10,225)	\$ -	\$ -
Rutherford Town Revitalization	20,164	-	59,307	-				-	39,143	-
Norris Public Library	22,079	6,009	10,903	-				-	-	(5,167)
	\$ 1,212,082	\$ 1,160,119	\$ 70,210	\$ -				(10,225)	39,143	(5,167)
General revenues:										
Property taxes, levied for general purpose					1,885,360	-	1,885,360	-	-	-
Unrestricted intergovernmental revenues					1,107,231	-	1,107,231	-	-	-
Other taxes and licenses					57,274	-	57,274	-	-	-
Investment earnings (losses)					(1,034)	86	(948)	187	-	1,614
Gain on disposition of capital assets					23,866	-	23,866	-	-	-
Miscellaneous					10,413	27,786	38,199	-	2,221	380
Total general revenues					3,083,110	27,872	3,110,982	187	2,221	1,994
Change in net position					(16,353)	800,690	784,337	(10,412)	41,364	(3,173)
Net position, beginning, previously reported					6,984,574	6,314,207	13,298,781	268,558	(16,594)	131,797
Restatement (Note 11)					(534,336)	-	(534,336)	(5,287)	-	-
Net position, beginning, restated					6,450,238	6,314,207	12,764,445	263,271	(16,594)	131,797
Net position, ending					\$ 6,433,885	\$ 7,114,897	\$ 13,548,782	\$ 252,859	\$ 24,770	\$ 128,624

The accompanying notes are an integral part of these financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

Exhibit 3

Balance Sheet
Governmental Funds
June 30, 2015

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Permanent Fund</u>	
Assets			
Current assets:			
Cash and cash equivalents	\$ 2,032,645	\$ 292,327	\$ 2,324,972
Restricted cash	207,075	-	207,075
Investments	-	270,265	270,265
Taxes receivable, net	237,137	-	237,137
Accounts receivable, net	2,893	-	2,893
Other receivables	19,951	-	19,951
Due from other governments	397,151	-	397,151
Prepaid items	8,776	-	8,776
Total assets	<u>2,905,628</u>	<u>562,592</u>	<u>3,468,220</u>
Liabilities			
Accounts payable and accrued liabilities	143,166	-	143,166
Total liabilities	<u>143,166</u>	<u>-</u>	<u>143,166</u>
Deferred Inflows of Resources			
Property taxes receivable	237,137	-	237,137
Prepaid taxes and licenses	201	-	201
Total deferred inflows of resources	<u>237,338</u>	<u>-</u>	<u>237,338</u>
Fund Balances			
Non-Spendable			
Fiduciary fund principal	-	552,216	552,216
Prepays	8,776	-	8,776
Restricted			
Stabilization by state statute	419,995	-	419,995
Public safety	9,777	-	9,777
Streets	197,298	-	197,298
Recreation	-	10,376	-
Committed			
Special events	7,714	-	7,714
Assigned			
Subsequent year's expenditures	152,895	-	152,895
Unassigned	1,728,669	-	1,728,669
Total fund balances	<u>2,525,124</u>	<u>562,592</u>	<u>3,087,716</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 2,905,628</u>	<u>\$ 562,592</u>	

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
Governmental Funds
June 30, 2015

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

Total fund balance, governmental funds	\$ 3,087,716
Capital assets used in governmental activities are not financial resources and therefore are not reported in funds.	4,033,745
Net pension asset	171,498
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the statement of net position	115,775
Earned revenues considered deferred inflows of resources in the funds statements	237,137
Long-term liabilities and compensated absences are not due and payable in the current period and therefore not reported in the funds.	(761,036)
Pension related deferrals	<u>(450,950)</u>
Net position of governmental activities	<u><u>\$ 6,433,885</u></u>

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2015

Exhibit 4

	<u>Major Funds</u>		<u>Total Governmental Funds</u>
	<u>General Fund</u>	<u>Permanent Fund</u>	
Revenues:			
Ad valorem taxes	\$ 1,802,223	\$ -	\$ 1,802,223
Other taxes and licenses	55,186	-	55,186
Unrestricted intergovernmental	1,107,231	-	1,107,231
Restricted intergovernmental	253,833	-	253,833
Sales and services	309,350	-	309,350
Contributions	6,355	-	6,355
Investment earnings	1,563	10,467	12,030
Miscellaneous	10,413	-	10,413
Total revenues	<u>3,546,154</u>	<u>10,467</u>	<u>3,556,621</u>
Expenditures:			
Current:			
General government	714,543	-	714,543
Public safety	1,603,486	-	1,603,486
Transportation and environmental protection	1,331,334	-	1,331,334
Cultural and recreational	229,843	8,533	238,376
Debt service:			
Principal retirement	52,131	-	52,131
Interest and fees	9,433	-	9,433
Total expenditures	<u>3,940,770</u>	<u>8,533</u>	<u>3,949,303</u>
Deficiency of revenues under expenditures	<u>(394,616)</u>	<u>1,934</u>	<u>(392,682)</u>
Other Financing Sources (Uses):			
Sales of capital assets	23,866	-	23,866
Unrealized investment loss, net	-	(13,064)	(13,064)
Total other financing sources (uses)	<u>23,866</u>	<u>(13,064)</u>	<u>10,802</u>
Net change in fund balances	(370,750)	(11,130)	(381,880)
Fund balances, beginning of year	<u>2,895,874</u>	<u>573,722</u>	<u>3,469,596</u>
Fund balances, end of year	<u>\$ 2,525,124</u>	<u>\$ 562,592</u>	<u>\$ 3,087,716</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of the Governmental Funds to the Statement of Activities
For the Year Ended June 30, 2015

Exhibit 4

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

Net changes in fund balances - governmental fund	\$ (381,880)
--------------------------------------------------	--------------

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimate useful lives and reported as depreciation expense.

Capital outlay expenditures which were capitalized	543,826
Depreciation expense for governmental assets	(399,778)

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities	115,775
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenues	83,129
------------------------------------------------	--------

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. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal payments on long-term debt	52,131
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Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	(24,844)
Pension expense	(2,490)
Net pension obligation	(2,222)

Total changes in net position of governmental activities	\$ (16,353)
----------------------------------------------------------	-------------

The accompanying notes are an integral part of these financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Statement of Revenues, Expenditures, and Changes in Fund Balance-Budget and Actual
General Fund
For the Year Ended June 30, 2015

Exhibit 5

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 1,643,148	\$ 1,808,359	\$ 1,802,223	\$ (6,136)
Other taxes and licenses	-	-	55,186	55,186
Unrestricted intergovernmental	1,066,994	1,066,994	1,107,231	40,237
Restricted intergovernmental	288,035	310,378	253,833	(56,545)
Sales and services	346,729	367,568	309,350	(58,218)
Contributions	-	6,355	6,355	-
Investment earnings	1,205	1,205	1,563	358
Miscellaneous	5,780	10,534	10,413	(121)
Total revenues	3,351,891	3,571,393	3,546,154	(25,239)
Expenditures:				
General government	714,143	811,447	714,543	96,904
Public safety	1,485,340	1,708,046	1,603,486	104,560
Transportation and environmental protection	1,031,828	1,331,908	1,331,334	574
Cultural and recreational	222,890	232,036	229,843	2,193
Debt service:				
Principal retirement	57,713	58,372	62,423	(4,051)
Interest and fees	9,433	8,774	9,433	(659)
Total expenditures	3,521,347	4,150,583	3,951,062	199,521
Revenues under expenditures	(169,456)	(579,190)	(404,908)	174,282
Other financing sources:				
Sales of capital assets	-	23,866	23,866	-
Appropriated fund balance	169,456	555,324	-	(555,324)
Total other financing sources	169,456	579,190	23,866	(555,324)
Revenues and other sources under expenditures	\$ -	\$ -	(381,042)	\$ (381,042)
Reconciling items to net change in fund balance				
Interfund loan principal payments			10,292	
Net change in fund balance			(370,750)	
Fund balance, beginning of year			2,895,874	
Fund balance, end of year			\$ 2,525,124	

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Statement of Fund Net Position
Proprietary Fund
June 30, 2015

Exhibit 6

	Major Enterprise Fund Sewer Fund
Assets	
Current assets:	
Cash and cash equivalents	\$ 510,464
Accounts receivable, net	93,411
Total current assets	603,875
Noncurrent assets:	
Capital assets:	
Land and other non-depreciable assets	18,750
Other capital assets, net of depreciation	6,865,420
Total capital assets	6,884,170
Total assets	\$ 7,488,045
Liabilities	
Current liabilities:	
Current portion of notes payable	\$ 48,134
Accounts payable	13,464
Total current liabilities	61,598
Noncurrent liabilities:	
Notes payable	311,550
Total liabilities	373,148
Net Position	
Net investment in capital assets	6,524,486
Unrestricted	590,411
Total net position	\$ 7,114,897

The accompanying notes are an integral part of these financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Fund
For the Year Ended June 30, 2015

Exhibit 7

	Major Enterprise Fund <hr/> Sewer Fund
Operating Revenues	
Charges for services	\$ 785,198
Other operating revenues	250
Total operating revenues	<hr/> 785,448 <hr/>
Operating Expenses	
Administration	141,372
Operations	358,889
Depreciation	265,074
Total operating expenses	<hr/> 765,335 <hr/>
Operating income	20,113
Non-Operating Revenues (Expenses)	
Investment earnings	86
Interest and fees	(8,206)
Miscellaneous income	27,786
Total non-operating revenues	<hr/> 19,666 <hr/>
Change in net position before transfers and capital contributions	39,779
Capital contributions	<hr/> 760,911 <hr/>
Change in net position	800,690
Total net position, beginning	<hr/> 6,314,207 <hr/>
Total net position, ending	<hr/> <u>\$ 7,114,897</u> <hr/>

The accompanying notes are an integral part of the financial statements.

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Statement of Cash Flows
Proprietary Fund
For the Year Ended June 30, 2015

Exhibit 8

	<u>Major Enterprise Funds</u>
	<u>Sewer Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 760,561
Cash paid for goods and services	(480,998)
Cash paid to employees for services	(56,325)
Net cash provided by operating activities	<u>223,238</u>
 Cash flows from noncapital and related financing activities:	
Miscellaneous income	27,786
Pass-through grant	17,500
Net cash provided by noncapital and related financing activities	<u>45,286</u>
 Cash flows from capital and related financing activities:	
Capital contributions	760,911
Acquisition and construction of capital assets	(885,911)
Interest payments on debt maturities	(8,206)
Principal payments on debt maturities	(48,130)
Net cash used by capital and financing activities	<u>(181,336)</u>
 Cash flows from investing activities:	
Interest earned	<u>86</u>
Net increase in cash and cash equivalents	87,274
Cash and cash equivalents, beginning of year	423,190
Cash and cash equivalents, end of year	<u>\$ 510,464</u>
 Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 20,113</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Depreciation and amortization	265,074
Changes in assets and liabilities:	
Increase in accounts receivable	(24,887)
Decrease in accounts payable	(37,062)
Total adjustments	<u>203,125</u>
Net cash provided by operating activities	<u>\$ 223,238</u>

The accompanying notes are an integral part of the financial statements.

Town of Rutherfordton, North Carolina **Notes to Financial Statements**

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Town of Rutherfordton, North Carolina (the Town) conform to accounting principles generally accepted in the United States of America as applicable to governments. The following is a summary of the more significant accounting policies:

A. Reporting Entity

The Town is a municipal corporation, which is governed by an elected mayor and a four-member council. The municipality utilizes the council-manager form of government. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town and its component units, legally separate entities for which the Town is financially accountable. The discretely presented component units presented below are reported in separate columns in the Town's financial statements in order to emphasize that they are legally separate from the Town.

Town of Rutherfordton ABC Board

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a Proprietary Fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative office located at Highway 221 South, Rutherfordton, NC 28139.

Rutherford Town Revitalization, Inc.

The Rutherford Town Revitalization (RTR) serves as a liaison between the Town of Rutherfordton and the Town's merchants. RTR was organized to improve the Town's economic growth as well as to develop preservation and beautification projects within the district. RTR is governed by fourteen members, two of which are appointed by the Town of Rutherfordton's council. The Town pays all administrative and operating expenses of RTR; therefore RTR is fiscally dependent on the Town. Complete financial statements for RTR may be obtained from the entity's administrative offices at 146 North Main Street, Rutherfordton, NC 28139.

Norris Library Foundation, Inc.

The Norris Public Library is a library available to all citizens of Rutherford County. The Foundation is governed by a twenty member board, all of which are appointed independent of the Town. The library salary costs are fully funded through the Town's general fund; therefore, the Library is fiscally dependent on the Town. Complete financial statements for the Norris Library Foundation, Inc. may be obtained from the entity's administrative offices at 132 North Main Street, Rutherfordton, NC 28139.

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 units. These statements distinguish between the *governmental* and *business-type* activities of the Town. Eliminations have been made to minimize the double counting of internal activities. 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 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. All remaining governmental and enterprise funds are aggregated and reported as non-major funds. Currently the Town has no non-major 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 up 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 major 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 and State-shared revenues. The primary expenditures are for public safety, street maintenance and sanitation service.

Permanent Fund. Pursuant to the authority granted by the North Carolina Session Law of 1981, Chapter 403, the Town Council adopted an ordinance creating a perpetual recreation trust fund. The fund is authorized to receive undesignated gifts, grants and bequests of tangible and intangible properties. The principal of the fund shall constitute a perpetual trust fund and no part of the principal shall be expended for any purpose.

The Town reports the following major enterprise fund:

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

C. Measurement Focus and Basis of Accounting

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

Government-wide 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 take place. Non-exchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, such as ad valorem taxes, are recognized in the fiscal year for which the taxes are levied. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from non-operating 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 the 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 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 non-operating 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 judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

The Town considers all revenues available if they are collected within 90 days after year-end, except for property taxes. Ad valorem taxes receivable are not accrued as a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 have been written off as uncollectable in the current year.

Sales taxes and certain intergovernmental revenues, such as the utilities sales tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Rutherford County and then remitted to and distributed by the State. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues. 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 budget is adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General and Enterprise Funds. All annual appropriations lapse at the fiscal-year end. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the departmental level for all annually budgeted funds. The governing board must approve any revision of the original budget. During the year, several amendments to the original budget were necessary. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred Outflows/Inflows of Resources and Fund Equity1. Deposits and Investments

All deposits of the Town, the ABC Board, RTR and the Library are made in board-designated official depositories and are secured as required by State law (G.S. 159-31). The Town, the ABC Board, RTR and the Library may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town, the ABC Board, RTR and the Library 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, the ABC Board, RTR and the Library 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 Cash Management Trust (NCCMT).

The Town, the ABC Board, RTR and the Library's investments with a maturity of more than one year at acquisition and non-money market investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. Money market investments that have a remaining maturity at the time of purchase of one year or less and non-participating interest earnings and investment contracts are reported at amortized cost.

2. Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents. The ABC Board, RTR and the Library consider all investments and other highly liquid debt instrument purchases with a maturity of three months or less to be cash and cash equivalents.

3. Restricted Assets

Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. The police department receives revenue from the State from the illegal substance tax and these funds are restricted for use by the department.

Town of Rutherfordton Restricted Cash

Governmental Activities		
General Fund		
Streets	\$	197,298
Public Safety		9,777
Total Governmental Activities		<u>207,075</u>
 Total Restricted Cash	\$	<u><u>207,075</u></u>

4. Ad Valorem Taxes Receivable

In accordance with State law (G.S. 105-347 and G.S. 159-13(a)), the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1 (lien date); however interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2014.

5. Allowances for Doubtful Accounts

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

6. Inventory and Prepaid Items

The inventory of the ABC Board is valued at cost (first-in, first-out), which approximates market. It consists of products held for subsequent resale. The cost of this inventory is expensed when sold rather than purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

7. 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. Purchased or constructed capital assets are recorded at original cost. Donated capital assets are recorded at their estimated fair value at the date of donation. Also, the Town has elected not to capitalize those interest costs that are incurred during the construction period of capital assets.

Certain items are recorded at an estimated original cost. The total of such estimates is not considered large enough that the errors would be material when capital assets are considered as a whole.

The Town began capitalizing public domain (“infrastructure”) capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems as of July 1, 2003. Infrastructure assets exceeding the Town’s capitalization threshold of \$500 will be reported as capital assets in the Statement of Net Position. General governmental infrastructure assets acquired prior to July 1, 2003 were not retroactively reported; therefore, the infrastructure capital assets in the Statement of Net Position only include assets purchased after July 1, 2003.

Governmental fund capital assets of the Town are depreciated using the straight-line method over the assets’ estimated useful lives. These assets are reported in the Town’s basic financial statements net of accumulated depreciation. The estimated useful lives for the Town’s governmental capital assets are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	15 - 50
Equipment	5 - 15

Capital assets in the proprietary funds of the Town are recorded at original cost at the time of acquisition. Capital assets donated to these proprietary fund type operations are recorded at the estimated fair market value at the date of donation. Proprietary fund capital assets of the Town are depreciated using the straight-

line method over the assets' estimated useful lives. These assets are reported in the Town's basic financial statements net of accumulated depreciation. The estimated useful lives for the Town's proprietary fund capital assets are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Pump stations and sewer lines	20 – 50
Waste water treatment plant	10 – 40
Streets	10
Equipment	5 – 10

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Building	30
Store equipment	10
Building improvements	5
Office equipment	10

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Sign	10
Office equipment	5

The Library does not have capital assets.

8. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has one item that meets this criterion, contributions made to the pension plan in the 2015 fiscal year.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet this criterion – property taxes receivable, prepaid taxes and licenses, and deferrals of pension expense that result from the implementation of GASB Statement 68.

9. Compensated Absences

Each employee, except for police and fire, of the Town working the basic work week of 40 hours per week shall earn annual leave at the following rates:

<u>Years of Service</u>	<u>Accrued Per Year</u>
1 – 9	10 days per year
10 +	15 days per year

Police department employees earn vacation leave at the following rate:

<u>Years of Service</u>	<u>Accrued Per Year</u>
1 – 9	96 hours per year
10 +	144 hours per year

Fire department employees earn vacation leave at the following rate:

<u>Years of Service</u>	<u>Accrued Per Year</u>
1 – 9	112 hours per year
10 +	168 hours per year

Vacation leave earned by regular employees having a work week with fewer or greater than 40 hours per week shall be calculated in accordance with a formula set forth in the Town's policy. The results of the calculation will adjust the employees accrual either up or down depending on their individual circumstance.

Vacation leave may be accumulated up to 30 days per year maximum. Vacation accumulated beyond this amount will automatically roll to sick leave at the end of the calendar year. If the employee separates from service, payment for accumulated annual leave shall not exceed 30 days. The Town records a liability for accrued vacation.

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

10. Long-Term Obligations

In the government-wide financial statements and in the 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.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as other financing sources.

The Town's long-term debt for the sewer system improvements is carried within the Enterprise Fund. The debt service requirements for that debt are being met by sewer revenues.

11. Net Position

Net position in government-wide and proprietary fund financial statements are classified as net investment 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.

12. Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Fiduciary Fund Principal – cash and shares of common stock held in the Rutherfordton Recreation Trust Fund.

Prepays – amounts held on deposit by a vendor of the Town.

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

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

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

Restricted for Public Safety - portion of fund balance that is restricted by revenue source to the public safety.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of the Town's governing body (highest level of decision-making authority). The governing body can, by adoption of an ordinance prior to the end of the fiscal year, commit fund balance. Once adopted, the limitation imposed by the ordinance remains in place until a similar action is taken (the adoption of another ordinance) to remove or revise the limitation.

Restricted for Special Events - portion of fund balance that is committed by majority vote of the Town's governing body for special events.

Assigned Fund Balance – portion of fund balance that the Town intends to use for specific purposes. The Town Council has the authority to assign fund balance.

Subsequent year's expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the Town manager to modify the appropriations among the various objects of expenditures within the department.

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

The Town of Rutherfordton does not have a formal revenue spending policy. For purposes of fund balance classification, it is the practice of the Finance Officer to use restricted resources before any other designation of fund balance.

The Town of Rutherfordton has not adopted a minimum fund balance policy.

13. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures at the Statement of Net Position date and reported amounts of revenues and expenses during the reporting period. Estimates are used to determine depreciation expense and allowance for doubtful accounts. Actual results may differ from those estimates.

14. Pensions

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

Note 2 – Stewardship, Compliance, and Accountability

Noncompliance with North Carolina General Statute

Marketable securities held by the Town violate the investment regulations of G.S. 159-30. The marketable securities were gifted by citizens of the Town. Because of the tremendous growth potential of the securities, the donors requested that the Town retain the stock. The Town intends to honor the request as intended by the donors and does not foresee disposing of the securities.

Note 3 – Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town, ABC Board, RTR and Library are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's, ABC Board's, RTR's or Library's agent in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, ABC Board, RTR, and Library, these deposits are considered to be held by the Town's, ABC Board's, RTR's and Library'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, ABC Board, RTR, the Library or their escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town, ABC Board, RTR or the Library 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, ABC Board, RTR and the Library comply with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Town, ABC Board, RTR and the Library do not have a formal policy for custodial credit risk for deposits.

At June 30, 2015, the Town's deposits had a carrying amount of \$462,497 and a bank balance of \$782,505. For the bank balance, \$250,000 was covered by federal depository insurance and the remaining balance was covered by the pooling method. At June 30, 2015, the Town's petty cash fund totaled \$854.

At June 30, 2015, the ABC Board's deposits had a carrying amount of \$122,341 and a bank balance of \$125,995. All of the bank balance of the ABC Board was covered by federal depository insurance. The ABC Board had petty cash of \$2,000.

At June 30, 2015, the RTR's deposits had a carrying amount of \$10,363 and a bank balance of \$10,363. All of the bank balance of RTR was covered by federal depository insurance. The carrying amount of the deposits for the Library was \$28,362 and bank balance was \$28,380, of which was covered by federal depository insurance.

2. Investments

At June 30, 2015, the Town's investment balances were as follows:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>	<u>Rating</u>	<u>%</u>
Dominion Resources, Inc.	\$ 270,265	N/A	Unrated	9%
NC Capital Management Trust Portfolio	2,579,160	N/A	AAAm	91%
	<u>\$ 2,849,425</u>			<u>100%</u>

Interest Rate Risk. The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. The Town has no policy regarding credit risk. The Town's investment in the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2015. The Town's investment in marketable securities is unrated.

Concentration of Credit Risk. The Town places no limit on the amount that the Town may invest in any one issuer. Each of the Town's investments represents more than 5% of total investments and the concentration percentages are listed in the table above.

The marketable securities are in violation of G.S. 159-30.

Marketable securities consisted of the following at year-end:

The Rutherfordton Recreation Trust Fund holds shares of common stock received as a gift to the Trust. These stocks are being held according to the terms of the unitrust agreements and terms stipulated by the donors.

The asset value of these common stocks was determined by market values at the date of the gifts to the Trust. The asset values and current market values at June 30, 2015 were as follows:

	<u>Number of Shares</u>	<u>Value at Date of Gift</u>	<u>Fair Value</u>
Dominion Resources, Inc.	<u>3,998</u>	<u>\$ 28,660</u>	<u>\$ 270,265</u>

At June 30, 2015, the ABC Board had no investments.

At June 30, 2015, RTR held the following investments:

	<u>Cost</u>	<u>Fair Value</u>
Certificate of Deposit	<u>\$ 14,649</u>	<u>\$ 14,649</u>

At June 30, 2015, the Library held the following investments:

	<u>Cost</u>	<u>Fair Value</u>
Mutual Funds	\$ 58,590	\$ 73,647

A reconciliation of deposits and investments to the government-wide financial statements is as follows:

	<u>Primary Government</u>	<u>Town of Rutherfordton ABC Board</u>	<u>Rutherfordton Town Revitalization Inc.</u>	<u>Norris Library Foundation, Inc.</u>
Deposits	\$ 462,497	\$ 122,341	\$ 10,363	\$ 28,362
Cash on hand	854	-	-	-
Investments	2,849,425	-	14,649	73,647
	<u>\$ 3,312,776</u>	<u>\$ 122,341</u>	<u>\$ 25,012</u>	<u>\$ 102,009</u>
Reported on government wide statement of net position:				
Cash and investments	\$ 2,543,109	\$ 124,341	\$ 25,012	\$ 102,009
Restricted cash	207,075	-	-	-
Endowment Fund	562,592	-	-	-
	<u>\$ 3,312,776</u>	<u>\$ 124,341</u>	<u>\$ 25,012</u>	<u>\$ 102,009</u>

3. Receivables - Allowances for Doubtful Accounts

The amount presented in the Balance Sheet and the Statement of Net Position for the year ended June 30, 2015 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	\$ 45,149
Accounts receivable	190
Total General Fund	<u>\$ 45,339</u>
Sewer Fund:	
Accounts receivable	<u>\$ 39,532</u>

4. Due From Other Governments

At June 30, 2015, the amounts due from other governments consisted of ad valorem taxes collected by Rutherford County but not yet remitted to or received by the Town.

Ad valorem (June 2015)	\$	76,314
Sales and franchise taxes		287,500
Sales tax refund		33,283
Other		54
Total	\$	<u>397,151</u>

5. Capital Assets

A summary of changes in the Town's governmental capital assets was as follows:

Primary Government:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 249,274	\$ -	\$ -	\$ 249,274
Projects in progress	10,027	-	10,027	-
Total capital assets not being depreciated	<u>259,301</u>	<u>-</u>	<u>10,027</u>	<u>249,274</u>
Capital Assets Being Depreciated :				
Building and improvements	6,001,138	379,519	-	6,380,657
Computer equipment	32,859	46,975	-	79,834
Equipment	3,279,894	127,359	25,925	3,381,328
Total capital assets being depreciated	<u>9,313,891</u>	<u>553,853</u>	<u>25,925</u>	<u>9,841,819</u>
Less Accumulated Depreciation For:				
Building and improvements	3,143,542	248,614	-	3,392,156
Computer equipment	32,851	3,723	-	36,574
Equipment	2,507,102	147,441	25,925	2,628,618
Total accumulated depreciation	<u>5,683,495</u>	<u>399,778</u>	<u>25,925</u>	<u>6,057,348</u>
Total capital assets being depreciated, net	<u>3,630,396</u>			<u>3,784,471</u>
Governmental Activities Capital Assets, Net	<u>\$ 3,889,697</u>			<u>\$ 4,033,745</u>

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

General government	\$ 22,451
Public safety	196,436
Transportation and environmental	106,308
Culture and recreation	74,583
	<u>\$ 399,778</u>

The capital asset activity of the business-type activities for the year ended June 30, 2015 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Business-type Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 18,750	\$ -	\$ -	\$ 18,750
Total capital assets not being depreciated	<u>18,750</u>	<u>-</u>	<u>-</u>	<u>18,750</u>
Capital Assets Being Depreciated :				
Pump stations and sewer lines	4,405,890	885,911	-	5,291,801
Waste water treatment plant	5,092,691	-	-	5,092,691
Streets	6,460	-	-	6,460
Equipment	195,624	-	-	195,624
Total capital assets being depreciated	<u>9,700,665</u>	<u>885,911</u>	<u>-</u>	<u>10,586,576</u>
Less Accumulated Depreciation For:				
Pump stations and sewer lines	1,293,872	118,964	-	1,412,836
Waste water treatment plant	2,054,081	133,020	-	2,187,101
Streets	6,460	-	-	6,460
Equipment	101,669	13,090	-	114,759
Total accumulated depreciation	<u>3,456,082</u>	<u>265,074</u>	<u>-</u>	<u>3,721,156</u>
Total capital assets being depreciated, net	<u>6,244,583</u>			<u>6,865,420</u>
Capital Assets, Net	<u>\$ 6,263,333</u>			<u>\$ 6,884,170</u>

The capital asset activity of the ABC Board for the year ended June 30, 2015 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
ABC Store Activities:				
Capital Assets Not Being Depreciated:				
Land	\$ 5,098	\$ -	\$ -	\$ 5,098
Capital Assets Being Depreciated :				
Building	172,499	-	-	172,499
Leasehold improvements	79,879	-	-	79,879
Store equipment	66,763	-	-	66,763
Office equipment	15,082	-	-	15,082
Total capital assets being depreciated	334,223	-	-	334,223
Less Accumulated Depreciation For:				
Building	170,583	1,917	-	172,500
Leasehold improvements	59,849	4,423	-	64,272
Store equipment	58,298	161	-	58,459
Office equipment	14,564	2,149	-	16,713
Total accumulated depreciation	303,294	8,650	-	311,944
Total capital assets being depreciated, net	30,929			22,279
Capital Assets, Net	\$ 36,027			\$ 27,377

The capital asset activity of the RTR for the year ended June 30, 2015 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
RTR Activities:				
Capital Assets Being Depreciated:				
Sign	\$ 4,362	-	-	\$ 4,362
Office equipment	2,213	-	-	2,213
Total capital assets being depreciated	<u>6,575</u>	<u>-</u>	<u>-</u>	<u>6,575</u>
Less Accumulated Depreciation For:				
Sign	4,362	-	-	4,362
Office equipment	2,213	-	-	2,213
Total accumulated depreciation	<u>6,575</u>	<u>-</u>	<u>-</u>	<u>6,575</u>
Capital Assets, Net	<u>\$ -</u>			<u>\$ -</u>

The Library does not have capital assets.

B. Liabilities

1. Payables

Payables at the government-wide level at June 30, 2015 were as follows:

	Vendors	Salaries and Benefits	Total
Governmental Activities			
General Fund	\$ 83,283	\$ 59,883	\$ 143,166
Business-type Activities			
Sewer Fund	\$ 13,464	-	\$ 13,464

2. Pension Plan Obligations

a. Local Governmental Employees' Retirement System

Plan Description – The Town of Rutherford and the ABC Board are participating employers in the State-wide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the

State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

Benefits Provided – LGERS provides retirement and survivor benefits. Retirement benefits are determined as 1.85% of the member's average final compensation times the member's years of creditable service. A member's average final compensation is calculated as the average of a member's four highest consecutive years of compensation. Plan members are eligible to retire with full retirement benefits at age 65 with five years of creditable service, at age 60 with 25 years of creditable service, or at any age with 30 years of creditable service. Plan members are eligible to retire with partial retirement benefits at age 50 with 20 years of creditable service or at age 60 with five years of creditable service (age 55 for firefighters). Survivor benefits are available to eligible beneficiaries of members who die while in active service or within 180 days of their last day of service and who have either completed 20 years of creditable service regardless of age (15 years of creditable service for firefighters and rescue squad members who are killed in the line of duty) or have completed five years of service and have reached age 60. Eligible beneficiaries may elect to receive a monthly Survivor's Alternate Benefit for life or a return of the member's contributions. The plan does not provide for automatic post-retirement benefit increases. Increases are contingent upon actuarial gains of the plan.

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

Contributions – Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Rutherfordton employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town's contractually required contribution rate for the year ended June 30, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Rutherfordton were \$115,775 for the year ended June 30, 2015.

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

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

At June 30, 2015, the Town reported an asset of \$171,498 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update

procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Town's proportion was 0.0291%, which was a decrease of 0.0028% from its proportion measured as of June 30, 2013.

The ABC Board recorded \$6,605 for its proportionate share of the net pension asset at June 30, 2015.

For the year ended June 30, 2015, the Town recognized pension expense of \$2,490. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 18,739
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	399,244
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	32,967
Town contributions subsequent to the measurement date	115,775	-
Total	<u>\$ 115,775</u>	<u>\$ 450,950</u>

Deferred outflows of resources of \$115,775 are reported related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as an increase of the net pension asset in the year ended June 30, 2016. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:	
2016	\$ (112,770)
2017	(112,770)
2018	(112,770)
2019	(112,640)
2020	-
Thereafter	-
	<u>\$ (450,950)</u>

Actuarial Assumptions. The total pension liability in the December 31, 2013 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

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

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

The actuarial assumptions used in the December 31, 2013 valuation were based on the results of an actuarial experience study for the period January 1, 2005 through December 31, 2009.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed Income	36.0%	2.5%
Global Equity	40.5%	6.1%
Real Estate	8.0%	5.7%
Alternatives	6.5%	10.5%
Credit	4.5%	6.8%
Inflation Protection	4.5%	3.7%
Total	<u>100.0%</u>	

The information above is based on 30 year expectations developed with the consulting actuary for the 2013 asset liability and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.19%. All rates of return and inflation are annualized.

A new asset allocation policy was finalized during the fiscal year ended June 30, 2014 to be effective July 1, 2014. The new asset allocation policy utilizes different asset classes, changes in the structure of certain asset classes, and adopts new benchmarks. Using the asset class categories in the preceding table, the new long-term expected arithmetic real rates of return are: Fixed Income 2.2%, Global Equity 5.8%, Real Estate 5.2%, Alternatives 9.8%, Credit 6.8% and Inflation Protection 3.4%.

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

Sensitivity of the Town’s proportionate share of the net pension asset to changes in the discount rate.

The following presents the Town’s proportionate share of the net pension asset calculated using the discount rate of 7.25 percent, as well as what the Town’s proportionate share of the net pension asset or net pension liability would be if it were calculated using a discount rate that is one percentage point lower (6.25 percent) or one percentage point higher (8.25 percent) than the current rate:

	1% Decrease (6.25%)	Current Discount Rate (7.25%)	1% Increase (8.25%)
Town’s proportionate share of the net pension liability	\$582,139	(\$171,498)	(806,036)

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

b. Law Enforcement Officers Special Separation Allowance

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

At December 31, 2014, the Separation Allowance’s membership consisted of:

Retirees receiving benefits	1
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>15</u>
Total	<u>16</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 to be made from the General Fund, which is maintained on the modified accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan.

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

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

Method Used to Value Investments. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due. An actuarial study was not done due to immateriality.

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 contributions for the current year were determined as part of the December 31, 2014 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.0% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% to 7.85% per year. Both (a) and (b) included an inflation component of 3.0%. The assumptions did not include postretirement benefit increases. The remaining amortization period at December 31, 2014 was 16 years.

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	\$ 22,954
Interest on net pension obligation	12,869
Adjustment to annual required contribution	<u>(22,617)</u>
Annual pension cost	13,206
Contributions made	<u>(10,984)</u>
Increase in net pension obligation	2,222
Net pension obligation, beginning of fiscal year	<u>257,374</u>
Net pension obligation, end of fiscal year	<u>\$ 259,596</u>

3 Year Trend Information

For Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2013	\$ 13,384	82.07%	\$ 255,065
2014	13,293	82.63%	257,374
2015	13,206	83.17%	259,596

As of December 31, 2014 the most recent actuarial valuation date, the plan was not funded. The unfunded actuarial accrued liability is being amortized as a level percentage of pay on a closed basis. The remaining amortization period at December 31, 2014 was 16 years. The actuarial accrued liability (UAAL) was \$155,625. The covered payroll (annual payroll of active employees covered by the plan) was \$543,519, and the ratio of the UAAL to the covered payroll was 28.63%.

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

c. Supplemental Retirement Income Plan

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 for all employees of the Town. The Plan provides retirement benefits to all employees of the Town. Article 5 of G.S. Chapter 135 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Supplemental Retirement Income Plan for Law Enforcement Officers is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes the pension trust fund financial statements for the Internal Revenue Code Section 401(k)

plan that includes the Supplemental Retirement Income Plan for Law Enforcement Officers. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary. The Town voluntarily contributes 2.5% of each non-law enforcement employees' salary. All amounts contributed are vested immediately. Also, all employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2015 were \$91,086, which consisted of \$51,215 from the Town, \$31,957 from the non-law enforcement employees and \$7,914 from the law enforcement officers.

3. Other Postemployment and Employment Benefits

The Town has 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 the monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. Because the benefit payments are made by the Death Benefit Plan and not by the Town, the Town does not determine the number of eligible participants. For the fiscal year ended June 30, 2015, the Town was not required to make contributions to the State for the death benefits due to a surplus in the fund.

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in two self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1,000,000 per occurrence; property coverage up to the total insurance values of the property policy; and workers' compensation coverage up to the statutory limits of North Carolina. The pools are reinsured through commercial companies for single occurrence claims against general liability; auto liability in excess of \$1,000,000 and property in excess of \$500,000 and \$1,000,000 up to statutory limits for workers' compensation. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based upon a percentage of the total insurance values. The Town provides health insurance for employees. The current plan, through Blue Cross / Blue Shield (BCBS), has a \$10,000 deductible with BCBS covering 100% of the expenses after the deductible is met. Under the current plan design, the Town is responsible for a maximum of \$7,400 of the \$10,000 deductible for each employee per calendar year.

The Town carries commercial coverage for risks of loss related to commercial property, automobiles, and public official dishonesty. Settled claims have not exceeded coverage in any of the last three fiscal years. The Town does not carry flood insurance because no structures owned by the Town lies within a mapped flood plain area.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more of the Town's funds at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000. The tax collector is bonded for \$15,000. The remaining employees that have access to funds are bonded under a blanket bond for \$25,000.

5. Long-Term Obligations

Installment Purchases

The Town incurred installment debt to finance various pieces of equipment. Notes payable in both General Fund and Sewer Fund are secured by the equipment. Principal and interest requirements are appropriated when due. Details of that debt are as follows:

Serviced by the General Fund:

Notes Payable:

On September 12, 2012, the Town executed an installment purchase agreement in the amount of \$509,981 for the purchase of a fire truck. This agreement bears interest at 2.08% and calls for monthly principal and interest payments of \$4,711 beginning in October of 2012 through September of 2022.

\$ 376,078

Serviced by the Sewer Fund

Notes Payable:

On September 2, 2009, the Town was awarded a loan in the amount of \$101,850 with the State of North Carolina for a loan from the North Carolina Emergency Revolving Loan Account to finance the waterworks road pump Station replacement and wastewater collection system improvements. This note bears no interest and calls for annual payments of \$16,975 in May of each year beginning in May 2011 through May 2016.

\$ 16,975

On June 12, 2006, the Town executed a promissory note in the amount of \$591,952 with the State of North Carolina for a loan from the North Carolina Water Pollution Control Revolving Fund to finance the retrofit of the wastewater treatment plant. This note bears interest at 2.195% and calls for semi-annual payments of interest and annual payments of principal in May of each year beginning in May 2009 through May 2026.

342,709

\$ 359,684

Annual debt service requirements to maturity for the Town's notes payable are as follows:

Governmental Activities:	Principal	Interest	Total
2016	\$ 49,174	\$ 7,355	\$ 56,529
2017	50,207	6,323	56,530
2018	51,261	5,268	56,529
2019	52,338	4,192	56,530
2020	53,437	3,093	56,530
2021-2023	119,661	2,820	122,481
	<u>\$ 376,078</u>	<u>\$ 29,051</u>	<u>\$ 405,129</u>

Business-type Activities:	Principal	Interest	Total
2016	\$ 48,134	7,522	\$ 55,656
2017	31,155	6,839	37,994
2018	31,155	6,155	37,310
2019	31,155	5,471	36,626
2020	31,155	4,787	35,942
2021-2025	155,775	13,677	169,452
2026	31,155	684	31,839
	<u>\$ 359,684</u>	<u>\$ 45,135</u>	<u>\$ 404,819</u>

A summary of changes in long-term debt are as follows:

	June 30, 2014				Current
	(as restated)	Additions	Retirements	June 30, 2015	Portion
Governmental Activities:					
Notes payable	\$ 428,209	\$ -	\$ 52,131	\$ 376,078	\$ 49,174
Net pension liability (LGERS)	384,517	-	384,517	-	-
Net pension liability (LEO)	257,374	13,206	10,984	259,596	-
Compensated absences	100,518	60,000	35,156	125,362	32,000
Total	<u>\$ 1,170,618</u>	<u>\$ 73,206</u>	<u>\$ 482,788</u>	<u>\$ 761,036</u>	<u>\$ 81,174</u>
Business-Type Activities:					
Notes payable	<u>\$ 407,814</u>	<u>\$ -</u>	<u>\$ 48,130</u>	<u>\$ 359,684</u>	<u>\$ 48,134</u>

Compensated absences generally have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned.

At June 30, 2015, the Town had a legal debt margin of approximately \$26,700,000.

The LGERS plan had a net pension liability at the beginning of the fiscal year and a net pension asset as of June 30, 2015.

Note 4 - Summary Disclosure of Significant Contingencies and Claims

The Town has received proceeds from 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 monies.

The Town is periodically involved in legal actions and claims arising in the normal course of operations. At June 30, 2015, the Town is not involved in any legal action that would have a material effect upon the financial position of the Town.

Note 5 – Prior Period Adjustment/Restatements

During the fiscal year ended June 30, 2015, the Town determined that its net pension liability for the Law Enforcement Officers Special Separation Allowance, which was subject to accrual on a full accrual basis of accounting, had been omitted in previous fiscal years. An adjustment to beginning net position of governmental activities has been recorded to account for the liability, the net effect of which decreased beginning net position by \$257,374. The pension liability is not subject to accrual on the modified accrual basis, therefore the beginning governmental fund balance was not affected.

The net position of governmental activities has been restated by \$276,962 due to the implementation of GASB 68. Refer to Note 11 for more information.

The total restatement for the net position of governmental activities was \$534,336.

Note 6 – 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	\$ 2,525,124
Less:	
Prepays	8,776
Stablization by state statute	419,995
Streets	197,298
Subsequent year's expenditures	152,895
Public safety	9,777
Special Events	7,714
Remaining fund balance	<u><u>\$ 1,728,669</u></u>

Note 7 - Rural Economic Development Grant

The Town was awarded a grant of \$500,000 from the Rural Economic Development Division of the North Carolina Department of Commerce for construction of a sewer line and pump station to serve the Tryon Equestrian Center in Polk County. The grant agreement stipulated matching funds be provided by the Golden LEAF Foundation (\$100,000), the developer (\$221,443), and the Town (\$25,000). The Town entered into a separate agreement with the developer, which stipulated that the developer would pay the Town's portion in addition to its own.

The sewer lines and pump station were completed in April 2015 at a cost of \$885,911, and the resulting assets are recorded as capital assets in the Sewer enterprise fund. During the year ended June 30, 2015, capital contributions of \$500,000 from the Department of Commerce and \$260,911 the developer are recorded in the sewer fund statement of revenue and expenses. The additional amount received from the developer to cover the Town's matching contribution is recorded as miscellaneous revenue in the sewer fund statement of revenue and expenses. The \$100,000 from the Gold LEAF Foundation was not applied for nor received during the year ended June 30, 2015. The Town expects to receive the \$100,000 payment during the year ending June 30, 2016.

The grant agreement also required that the developer create 50 new full-time jobs, with the provision that the developer will repay \$10,000 to the Department of Commerce for each of the 50 new positions it fails to create. The Town is responsible for recovering any such repayment from the developer if required. The Town does not expect any material expenses to result from this potential recovery of grant funds, and no provision or allowance has been made for such expenses in the financial statements.

Note 8 – Property Lease

The Rutherfordton Golf Club, Inc. is a golf course located on property owned by the Town. The property is leased to the golf club for \$1 annually. The golf club is governed by a board which is appointed and serves independently of the Town. The Town, in conjunction with the recreation trust fund, paid expenses for the golf club of \$10,000 and \$17,400 in 2015 and 2014, respectively.

Note 9 – Interlocal Agreement with Polk County

On September 8, 2014, the Town entered into an interlocal agreement with Polk County with the purpose of providing wastewater collection, treatment and transport for the new equestrian center in Polk County. The new sewer lines and pump station were installed at a total project cost of \$885,911. The Town has capitalized and owns the sewer line and pump station with the Town's sewer proprietary fund and is being depreciated over the agreement's life. The project was completed during the year ended June 30, 2015 and was funded by the following sources:

Equestrian Center Developer Funds	\$ 260,911
Golden Leaf Foundation	100,000
North Carolina Department of Commerce (Rural Economic Development Grant)	500,000
Town Funds (Match)	<u>25,000</u>
	<u>\$ 885,911</u>

The total revenue received and recognized was \$760,911, which is shown as capital contributions. As of June 30, 2015, the Town did not request for the \$100,000 with Golden Leaf Foundation due to reporting requirements. The Town will apply for reimbursement of the \$100,000 and intends to recognize the \$100,000 in revenue during the Town's fiscal year ended June 30, 2016.

Note 10 - Broad River Water Authority

The Broad River Water Authority has been organized pursuant to the provisions of Chapter 162A, Article 1, of the North Carolina Statutes. The Water Authority was organized to purchase and manage a water system to provide water services to the citizens of Rutherford County, Town of Rutherfordton, Town of Spindale and Town of Ruth. The political subdivisions of the Authority are Rutherford County, Town of Rutherfordton, Town of Spindale and Town of Ruth. Each political subdivision shall be allowed to appoint two members of the Authority. The Town, according to 162A-16 is authorized to make contributions or advances to an authority to provide for preliminary expenses of such Authority. The Town of Rutherfordton joined the Broad River Water Authority on August 3, 1999.

Note 11 – Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) Statement 68, *Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27)*, in the fiscal year ended June 30, 2015. The implementation of the statement required the Town to record beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, net position for governmental activities decreased by \$276,962.

Note 12 – Subsequent Event

On October 16, 2015, the Town entered into an equipment lease with Regions Bank in the amount of \$425,000 for a period of 60 months. Semiannual payments of \$45,088 will begin on April 16, 2016.

REQUIRED SUPPLEMENTARY FINANCIAL DATA

TOWN OF RUTHERFORDTON, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
Schedule of Funding Progress and Employer Contributions

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) -Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
12/31/14	-	\$ 155,625	\$ 155,625	0%	\$ 543,519	28.63%

Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	\$ 13,384	82.07%
2014	13,293	82.63%
2015	13,206	83.17%

TOWN OF RUTHERFORDTON, NORTH CAROLINA
TOWN'S PROPORTIONATE SHARE OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
LAST TWO FISCAL YEARS *

Local Government Employees' Retirement System

	2015	2014
Town's proportionate share of the net pension liability (asset) (%)	0.02908%	0.03190%
Town's proportion of the net pension liability (asset) (\$)	\$ (171,498)	\$ 384,517
Town's covered-employee payroll	1,606,643	1,505,579
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	10.67%	25.54%
Plan fiduciary net position as a percentage of the total pension liability **	102.64%	94.35%

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

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

TOWN OF RUTHERFORDTON, NORTH CAROLINA
TOWN OF RUTHERFORDTON'S CONTRIBUTIONS
REQUIRED SUPPLEMENTARY INFORMATION
LAST TWO FISCAL YEARS

Local Government Employees' Retirement System

	2015	2014
Contractually required contribution	\$ 115,772	\$ 107,555
Contribution in relation to the contractually required contribution	115,772	107,555
Contribution deficiency (excess)	\$ -	\$ -
City's covered-employee payroll	\$ 1,606,643	\$ 1,505,579
Contributions as a percentage of covered-employee payroll	7.21%	7.14%

**INDIVIDUAL FUND STATEMENTS
AND SCHEDULES**

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
Revenues:			
Ad valorem taxes:			
Taxes		\$ 1,790,419	
Penalties and interest		11,804	
Total ad valorem taxes	<u>\$ 1,808,359</u>	<u>1,802,223</u>	<u>\$ (6,136)</u>
Other taxes and licenses:			
Privilege licenses		55,186	
Total other taxes and licenses	<u>-</u>	<u>55,186</u>	<u>55,186</u>
Unrestricted intergovernmental revenues:			
Local option sales tax		650,349	
ABC profit distribution		20,031	
Utility sales tax		418,928	
Beer and wine tax		17,923	
Total unrestricted intergovernmental revenues	<u>1,066,994</u>	<u>1,107,231</u>	<u>40,237</u>
Restricted intergovernmental revenues:			
Special assessment-downtown revitalization		8,132	
State grants		83,627	
Powell Bill allocation		139,676	
State distributions for drug enforcement		792	
Solid waste tax disbursement		2,088	
ABC funds for law enforcement		19,518	
Total restricted intergovernmental revenues	<u>310,378</u>	<u>253,833</u>	<u>(56,545)</u>
Sales and services:			
Fire district revenue		246,717	
Cable TV franchise		4,286	
Solid waste user fee		29,159	
Recycling & refuse		293	
Crestview Park rental		1,758	
Cemetery revenue		2,982	
Clubhouse revenue		11,596	
Other fees		5,564	
Federal building lease		6,885	
Police reports		110	
Total sales and services	<u>367,568</u>	<u>309,350</u>	<u>(58,218)</u>
Other revenues:			
Sale of capital assets	23,866	23,866	-
Contributions	6,355	6,355	-
Investment earnings	1,205	1,563	358
Miscellaneous	10,534	10,413	(121)
Total other revenues	<u>41,960</u>	<u>42,197</u>	<u>237</u>
Total revenues	<u>3,595,259</u>	<u>3,570,020</u>	<u>(25,239)</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
Expenditures:			
General government:			
Governing body:			
Board member services		10,570	
Council expense		4,906	
Professional services		78,795	
Total governing body		<u>94,271</u>	
Administration:			
Salaries and employee benefits		235,978	
Operating expenses		222,576	
Capital outlay		20,398	
Total administration		<u>478,952</u>	
Main Street programs and zoning:			
Operating expenses		<u>141,320</u>	
Total general government	<u>811,447</u>	<u>714,543</u>	<u>96,904</u>
Public safety:			
Police:			
Salaries and employee benefits		767,838	
Operating expenses		112,303	
Capital outlay		155,833	
Total police	<u>1,109,456</u>	<u>1,035,974</u>	<u>73,482</u>
Fire:			
Salaries and employee benefits		432,716	
Operating expenses		132,006	
Capital outlay		2,790	
Total fire	<u>598,590</u>	<u>567,512</u>	<u>31,078</u>
Total public safety	<u>1,410,037</u>	<u>1,282,055</u>	<u>127,982</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
General Fund
For the Year Ended June 30, 2015

	Budget	Actual	Variance Favorable (Unfavorable)
Transportation and Environmental Protection:			
Salaries and employee benefits		578,808	
Operating expenses		387,721	
Capital outlay		364,805	
Total transportation and environmental protection	1,331,908	1,331,334	574
Cultural and recreational:			
Salaries and employee benefits		142,161	
Operating expenses		87,682	
Total cultural and recreational	232,036	229,843	2,193
Debt service:			
Principal retirement	58,372	62,423	(4,051)
Interest and fees	8,774	9,433	(659)
Total debt service	67,146	71,856	(4,710)
Total expenditures	4,150,583	3,951,062	199,521
Revenues over (under) expenditures	(555,324)	(381,042)	174,282
Other financing sources (uses):			
Appropriated fund balance	555,324	-	(555,324)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	(381,042)	\$ (381,042)
Reconciling items to net change in fund balance			
Interfund loan principal payments		10,292	
Net change in fund balance		(370,750)	
Fund balance, beginning of year		2,895,874	
Fund balance, end of year		\$ 2,525,124	

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Schedule of Revenues and Expenditures - Budget and Actual (Non-GAAP)
Sewer Fund
For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Operating Revenues			
Charges for services	\$ 729,740	\$ 785,198	\$ 55,458
Tap and connection fees	750	250	(500)
Total operating revenues	<u>730,490</u>	<u>785,448</u>	<u>54,958</u>
Non-operating revenues			
Investment earnings	360	86	(274)
Miscellaneous income	-	27,786	27,786
Capital contributions	1,000,000	760,911	(239,089)
Total non-operating revenues	<u>1,000,360</u>	<u>788,783</u>	<u>(211,577)</u>
Total revenues	<u>1,730,850</u>	<u>1,574,231</u>	<u>(156,619)</u>
Expenditures			
Operations:			
Salaries	52,833	56,325	(3,492)
Billing expenses	17,000	14,961	2,039
Utilities	69,000	66,587	2,413
Departmental materials and supplies	48,077	49,958	(1,881)
Plant chemicals	20,000	34,477	(14,477)
Testing and monitoring	42,800	40,556	2,244
Contracted services	126,400	126,411	(11)
Insurance	4,750	5,447	(697)
Miscellaneous	10,000	9,280	720
Repairs and maintenance	75,700	78,759	(3,059)
Grants	-	17,500	(17,500)
Capital outlay	1,000,000	885,911	114,089
Debt service:			
Principal	48,130	48,130	-
Interest	8,206	8,206	-
Contingency	207,954	-	207,954
Total expenditures	<u>1,730,850</u>	<u>1,442,508</u>	<u>288,342</u>
Revenue over (under) expenditures	<u>\$ -</u>	<u>131,723</u>	<u>\$ 131,723</u>
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling items:			
Principal payments on long term debt		48,130	
Capital outlay		885,911	
Depreciation		(265,074)	
		<u>\$ 800,690</u>	

SUPPLEMENTAL FINANCIAL DATA

TOWN OF RUTHERFORDTON, NORTH CAROLINA
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2015

<u>Fiscal year</u>	<u>Uncollected Balance June 30, 2014</u>	<u>Additions</u>	<u>Collections and Credits</u>	<u>Uncollected Balance June 30, 2015</u>
2014-2015	\$ -	\$ 2,093,507	\$ 1,901,580	\$ 191,927
2013-2014	63,820	-	25,654	38,166
2012-2013	24,714	-	7,532	17,182
2011-2012	15,818	-	3,587	12,231
2010-2011	10,306	-	2,316	7,990
2009-2010	7,446	-	2,519	4,927
2008-2009	5,894	-	2,672	3,222
2007-2008	5,222	-	2,303	2,919
2006-2007	5,014	-	2,771	2,243
2005-2006	3,380	-	1,901	1,479
2004-2005	12,392	-	12,392	-
	<u>\$ 154,006</u>	<u>\$ 2,093,507</u>	<u>\$ 1,965,227</u>	<u>282,286</u>
Less: Allowance for uncollectible accounts:				<u>(45,149)</u>
Ad valorem taxes receivable, net				<u>\$ 237,137</u>
 <u>Reconciliation with revenues</u>				
Ad valorem taxes - general fund				\$ 1,802,223
Discounts and releases				145,755
Miscellaneous adjustments				(747)
Amount written off per statute of limitations				12,392
Other write-offs				25,389
Sewer district collections				(7,981)
Penalties and interest				<u>(11,804)</u>
Total collections and credits				<u>\$ 1,965,227</u>

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Analysis of Current Tax Levy
June 30, 2015

	<u>Town-Wide Levy</u>			<u>Total Levy</u>	
	<u>Property Valuation</u>	<u>Rate</u>	<u>Total Levy</u>	<u>Property excluding Registered Motor Vehicles</u>	<u>Registered Motor Vehicles</u>
Original levy	\$ 370,131,922	0.567	\$ 2,098,648	\$ 1,831,686	\$ 266,962
Discoveries	24,823,810	0.567	140,751	140,751	-
Releases and abatements	<u>(25,730,511)</u>	0.567	<u>(145,892)</u>	<u>(145,892)</u>	<u>-</u>
Total property valuation	<u><u>\$ 369,225,220</u></u>				
Net levy			2,093,507	1,826,545	266,962
Uncollected taxes at June 30, 2015			<u>(191,927)</u>	<u>(191,927)</u>	<u>-</u>
Current year's taxes collected			<u><u>\$ 1,901,580</u></u>	<u><u>\$ 1,634,618</u></u>	<u><u>\$ 266,962</u></u>
Current levy collection percentage			<u><u>90.83%</u></u>	<u><u>89.49%</u></u>	<u><u>100.00%</u></u>

COMPLIANCE SECTION



**GOULD KILLIAN
CPA GROUP, P.A.**
CERTIFIED PUBLIC ACCOUNTANTS

**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 Auditors' Report

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

We 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 accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Town of Rutherfordton, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprises the Town of Rutherfordton's basic financial statements, and have issued our report thereon dated November 30, 2015. Our report includes a reference to other auditors who audited the financial statements of the Town of Rutherfordton ABC Board, as described in our report on the Town of Rutherfordton's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Town of Rutherfordton ABC Board, Norris Library Foundation, Inc., and Rutherfordton Town Revitalization, Inc, were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town of Rutherfordton's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town of Rutherfordton's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. However, material weaknesses may exist that have not been identified.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses as items 2015-01, 2015-02, and 2015-03 to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Rutherfordton's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. As noted in Note 2 to the financial statements and Finding 2014-04, the Town holds securities in violation of G.S. 159-30.

Purpose of the Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results 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.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
November 30, 2015



**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 Auditors' Report

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

Report on Compliance for Each Major State Program

We have audited the Town of Rutherfordton, North Carolina, 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 each of the Town of Rutherfordton's major state programs for the year ended June 30, 2015. The Town of Rutherfordton's major state programs are identified in the summary of auditors' 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.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Rutherfordton's major state programs based on our audit of the types of compliance requirements referred to above. We conducted our 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 we 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 Rutherfordton's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major state program. However, our audit does not provide a legal determination of the Town of Rutherfordton's compliance.

Opinion on Each Major State Program

In our opinion, the Town of Rutherfordton complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major state programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Town of Rutherfordton is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the Town of Rutherfordton'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 our 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, we do not express an opinion on the effectiveness of the Town'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.

Our 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. We did not identify any deficiencies in internal control over compliance that we 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 our 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.

Donald Killian CPA Group, P.A.

Asheville, North Carolina
November 30, 2015

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2015

Section I. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____yes X no

Significant deficiency(ies) identified
that are not considered to be
material weaknesses X yes _____no

Noncompliance material to financial
statements noted X yes _____no

State Awards

Internal control over major state programs:

Material weakness(es) identified? _____yes X no

Significant deficiency(ies) 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: Unmodified

Any audit findings disclosed that are required
to be reported in accordance with the
State Single Audit Implementation Act _____yes X no

Major State Programs for the Town of Rutherfordton for the fiscal year ended June 30, 2015 are:

Program Name

Non-State System Street-Aid Allocation (Powell Bill)

Economic Infrastructure Grant

TOWN OF RUTHERFORDTON, NORTH CAROLINA

Schedule of Findings and Responses
For the Year Ended June 30, 2015

Section II. Financial Statement Findings

Finding: 2015-01

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Due to the limited number of personnel in the Town office, there are inherent limitations to the segregation of duties among Town personnel. This condition was exacerbated during the fiscal year due to a period of vacancy in the financial director position.

Context: The person posting to the general ledger also makes deposits to the bank, initiates interbank transfers, and reconciles the bank statements with limited review procedures, along with most other Town finance operations.

Effect: Errors in financial reporting could occur and not be detected.

Cause: There are a limited number of personnel for certain functions.

Recommendation: Incompatible duties should be separated as much as possible. The Town should either provide additional personnel or alternative controls should be used to compensate for any lack of segregation of duties.

Name of Contact Person: Thaddeus Hodge, Financial Director

Management's Response: Management is aware of the weakness, but due to the cost benefit analysis, hiring additional personnel does not appear feasible. It should be noted that management has instituted additional compensating controls to limit risk associated with segregation of duties; however, these controls are not sufficient to mitigate the entire segregation of duties weakness.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

Schedule of Findings and Responses For the Year Ended June 30, 2015

Finding 2015-02

Criteria: Management should have a system in place to reduce the likelihood of errors in financial reporting.

Condition: Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board (GAAP) requires a level of technical expertise not typically required to perform normal day-to-day operations. The Town's finance department does not prepare full accrual, full disclosure GAAP financial statements.

Context: The external auditor proposed adjustments and prepared the full accrual, full disclosure financial statements.

Effect: Errors in financial reporting could occur.

Cause: There are limited Town resources as it relates to closing the books and preparing full accrual, full disclosure, and year-end financial statements.

Recommendation: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears prohibitive. Therefore, the Town should exercise due care in reviewing the financial statements drafted by the external auditor as the Town is responsible for the accuracy of the audited financial statements.

Name of Contact Person: Thaddeus Hodge, Financial Director

Management's Response: Management has and will continue to exercise due care in reviewing the audit adjustments and financial statements drafted by the external auditor, as the Town is responsible for the accuracy of the audited financial statements, including all adjustments required for year-end reporting.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

Schedule of Findings and Responses
For the Year Ended June 30, 2015

Finding 2015-03

Criteria: Accurate and informative recordkeeping on the modified accrual basis of accounting is integral to an effective system of internal control.

Condition: Year-end account balances were not reconciled to supporting ledgers or other supporting documents in a manner that complies with modified accrual basis of accounting.

Context: The external auditor proposed year-end adjustments to conform the Town's records to the modified accrual basis of accounting.

Effect: Without periodic analysis and reconciliation of account balances, material misstatements may not be detected.

Cause: Significant staffing changes during the year.

Recommendation: The Town should implement processes for periodic and year-end analysis and reconciliation of key balance sheet accounts.

Name of Contact Person: Thaddeus Hodge, Financial Director

Management's Response: The Town agrees with this finding and will implement additional procedures.

TOWN OF RUTHERFORDTON, NORTH CAROLINA

Schedule of Findings and Responses
For the Year Ended June 30, 2015

Finding 2015-04

Criteria: Management should have a system in place to reduce the likelihood of noncompliance with all applicable laws, rules and regulations.

Condition: Local governments in North Carolina are prohibited from holding certain types of securities.

Context: The Town holds securities in violation of G.S.159-30.

Effect: The Town is noncompliant with G.S. 159-30.

Cause: Securities were donated to the Town with specified terms that the investment not be sold. The terms did not comply with State statutes.

Recommendation: The Town should make an effort to contact the contributors of the securities and have the terms changed to comply with G.S. 159-30.

Name of Contact Person: Thaddeus Hodge, Finance Officer

Management's Response: Management concurs with the finding but will abide by the terms of the agreement if the contributors cannot be contacted.

TOWN OF RUTHERFORDTON, NORTH CAROLINA
Schedule of Expenditures of State Awards
For the Year Ended June 30, 2015

<u>Grantor/Program Title</u>	<u>State Grantor's Number</u>	<u>State Expenditures</u>	<u>Local Expenditures</u>
State Awards:			
<u>North Carolina Department of Transportation</u>			
Non-State System Street-Aid Allocation (Powell Bill)	DOT-4	\$ 382,153	\$ -
<u>North Carolina Department of Commerce</u>			
NC STEP Planning Investment Project	2012-198-60401-107	646	-
NC STEP Implementation Project	2012-237-60401-104	40,252	-
Economic Infrastructure Grant	2015-009-3212-2538	500,000	25,000
Critical Needs Infrastructure Grant	2013-143-40101-102	17,500	-
Total N.C. Department of Commerce		<u>558,398</u>	<u>25,000</u>
<u>North Carolina Department of Environmental and Natural Resources</u>			
Curbside Recycling Grant	DENR-5474	42,500	42,500
Total State awards		<u>\$ 983,051</u>	<u>\$ 67,500</u>

Notes to the Schedule of Expenditures of State Financial Awards:

- The accompanying schedule of expenditures of State awards includes the State grants of the Town of Rutherfordton and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of 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.