

Town of Biscoe, North Carolina

Financial Statements as of and for the
Year Ended June 30, 2015 and Independent
Auditors' Report

Town of Biscoe, North Carolina
List of Principal Officials
June 30, 2015

Elected Officials

James E. Blake	Mayor
Jerry Smith	Mayor Pro-Tem
John Beard	Commissioner
Eugene Anderson	Commissioner
Jimmy Cagle	Commissioner
W. Eddie Reynolds	Commissioner

Appointed Officials

Brooks Lockhart	Town Manager
Laura Morton	Town Clerk
Laura Jordan	Deputy Clerk
Michael Tedder	Police Chief
Sam Stewart	Public Works Director
Brent Tedder	Police Chief
Tripp Myrick	Fire Chief

TOWN OF BISCOE, NORTH CAROLINA

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Town Commissioners
Biscoe, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Biscoe, North Carolina ("Town") 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.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. 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.

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 financial statement 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 the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town as of June 30, 2015, and the respective changes in financial position and cash flows, where appropriate, thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Change in Accounting Principle

As discussed in Note XV to the financial statements, the financial statements as of and for the year ended June 30, 2014 were restated due to the implementation of GASB Statement No. 68, Accounting and Financial Reporting for Pensions, in 2015. Our opinion is not modified with respect to these changes.

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 13, the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employer Contributions, on pages 48 and 49, respectively, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions on pages 50 and 51, respectively, be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by 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 inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to inquiries, the basic financial statements, and other knowledge 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. The combining and individual fund statements, budgetary schedules, other schedules, statistical section, as well as the accompanying schedule of expenditures of federal and state awards as required by the U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations* and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund schedules and the accompanying schedule of expenditures of federal and 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, the individual fund schedules, and the accompanying schedule of expenditures of federal and state awards are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2015 on our consideration of the Town's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that 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's internal control over financial reporting and compliance.

Dixon Hughes Goodman LLP

*November 17, 2015
High Point, North Carolina*



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Management's Discussion and Analysis

As management of the Town of Biscoe we offer readers of the Town of Biscoe financial statements this narrative overview and analysis of the financial activities of the Town of Biscoe (Town) 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

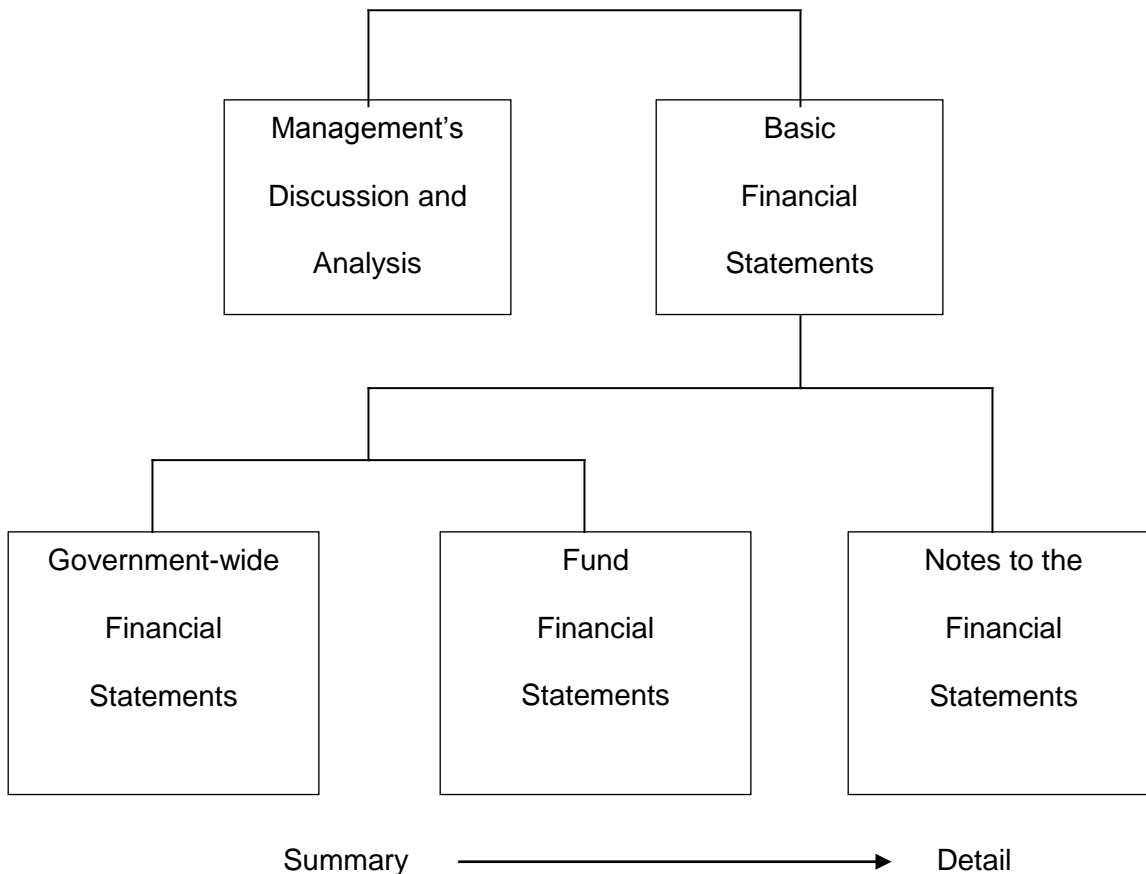
- The assets of the Town of Biscoe exceeded its liabilities at the close of the fiscal year by \$9,420,782. The assets of the governmental activities exceeded liabilities by \$3,703,226 and the assets of the business-type activities exceeded liabilities by \$5,717,556.
- Governmental activities total net position increased by \$124,252; primarily due to the selling of timber rights on town-owned land.
- As of the close of the current fiscal year, the Town of Biscoe's governmental funds reported combined ending fund balances of \$2,096,139 an increase of \$160,027 in comparison with the prior year. Approximately 41 percent of this total amount, or \$859,442 is available for spending at the government's discretion (*unassigned fund balance*). The Town maintains more than a minimum of 20% of budgeted expenditures in available fund balance for cash flow and emergencies. In addition the town maintains a capital reserve fund with money dedicated to large capital expenditures.
- As of the close of the current fiscal year, the Town's business-type activities reported ending net position of \$5,717,556 an increase of \$402,663 from the prior year.

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 of Biscoe.

Figure 1:

Required Components of Annual Financial Report



Basic Financial Statements

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

The next statements (Exhibits 3 through 10) 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 four parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; 3) the proprietary fund statements; and 4) the fiduciary 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 and required supplemental financial data, **supplemental information** is provided to show details about the Town's individual funds. Budgetary information required by the North Carolina 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 are the statement of net position and the statement of activities. Net position is the difference between the total of the Town's assets and deferred outflows of resources and the total of liabilities and deferred inflows of resources. Measuring net position is one way to gauge the Town's financial condition. Over time, increases or decreases in net position help determine whether the Town's financial position is improving or deteriorating. The statement of activities presents information which show how the Town's net position changed during the most recent fiscal year.

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, public works, parks and recreation, library, planning and inspections, transportation, and general administration. Property taxes and intergovernmental revenues finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer services offered by the Town.

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

Fund Financial Statements

The fund financial statements (see Figure 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, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town can be divided into three categories: governmental funds, proprietary funds, and fiduciary 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 which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town’s programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town 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 Town 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 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 water and sewer activity. This fund is the same as the function shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Fiduciary Funds – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. The Town has one fiduciary fund.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 26 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town’s progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 48 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.

Net Position

The following (Figure 2) reflects condensed information on the Town's net position.

Figure 2:

The Town of Biscoe Statement of Net Position

	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Current and other assets	\$ 2,329,992	\$ 2,120,025	\$ 1,329,046	\$ 1,040,399	\$ 3,659,038	\$ 3,160,424
Capital assets	1,554,588	1,616,838	5,352,085	4,349,353	6,906,673	5,966,191
Deferred outflows of resources	34,926	31,247	12,449	11,137	47,375	42,384
Total assets and deferred outflows of resources	<u>3,919,506</u>	<u>3,768,110</u>	<u>6,693,580</u>	<u>5,400,889</u>	<u>10,613,086</u>	<u>9,168,999</u>
Current liabilities	70,488	70,947	268,801	74,859	339,289	145,806
Long-term liabilities	-	118,189	655,257	42,127	655,257	160,316
Deferred inflows of resources	145,792	-	51,966	-	197,758	-
Total liabilities and deferred inflows of resources	<u>216,280</u>	<u>189,136</u>	<u>976,024</u>	<u>116,986</u>	<u>1,192,304</u>	<u>306,122</u>
Net Position:						
Net investment in capital assets	1,554,588	1,616,838	4,696,828	4,349,353	6,251,416	5,966,191
Restricted	246,636	181,766	-	-	246,636	181,766
Unrestricted	1,902,002	1,780,370	1,020,728	934,550	2,922,730	2,714,920
Total net position	<u>\$ 3,703,226</u>	<u>\$ 3,578,974</u>	<u>\$ 5,717,556</u>	<u>\$ 5,283,903</u>	<u>\$ 9,420,782</u>	<u>\$ 8,862,877</u>

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 exceeded liabilities and deferred inflows of resources by \$9,420,782 as of June 30, 2015. The Town's net position increased by \$557,905 for the fiscal year ended June 30, 2015. However, the largest portion (66%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town 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 liquidated to satisfy these liabilities. An additional portion of the Town's net position, \$246,636, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$2,922,730 (31%) is unrestricted.

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

- Unlike the previous two years, the cost of Governmental Activities were less than received revenues; we can attribute this change to a significant reduction in providing general government services, increased park revenues, and the cash windfall of harvesting timber on town-owned land.
- Our Business Type Activities reflected no growth (less than 1%) in charges for services. This is the first year without significant growth within the last 5 years. We anticipate growth in charges for services will occur next year due to the yogurt factory in Town intending to increase production.
- As of June 30, 2015 the Town was well underway with a large investment at our Wastewater Treatment Plant. This project was financed with \$532,800 in capital grants and contributions and a loan from the State totaling \$655,257 at year end.

Changes in Net Position

The Town's total revenues and expenses for governmental and business-type activities are reflected in Figure 3.

Figure 3:

	Town of Biscoe					
	Changes in Net Position					
	Governmental Activities		Business-type Activities		Total	
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 50,649	\$ 40,665	\$ 980,802	\$ 978,220	\$ 1,031,451	\$ 1,018,885
Operating grants and contributions	81,790	163,849	-	-	81,790	163,849
Capital grants and contributions	778,278	4,594	532,800	841,588	1,311,078	846,182
General revenues:						
Property taxes	635,532	718,213	-	-	635,532	718,213
Local option sales tax	318,977	292,120	-	-	318,977	292,120
Unrestricted						
Intergovernmental	273,682	231,858	-	-	273,682	231,858
Other	316,044	74,942	16,279	29,873	332,323	104,815
Total revenues	2,454,952	1,526,241	1,529,881	1,849,681	3,984,833	3,375,922
Expenses:						
General government	413,927	513,692	-	-	413,927	513,692
Public safety	799,983	705,941	-	-	799,983	705,941
Cultural and recreation	122,864	258,072	-	-	122,864	258,072
Transportation	243,926	111,910	-	-	243,926	111,910
Economic and physical development	750,000	-	-	-	750,000	-
Water and sewer	-	-	1,096,228	926,471	1,096,228	926,471
Total expenses	2,330,700	1,589,615	1,096,228	926,471	3,426,928	2,516,086
Increase (decrease) in net position before transfers	124,252	(63,374)	-	923,210	-	859,836
Transfers	-	27,400	-	(27,400)	-	-
Increase (decrease) in net position	124,252	(35,974)	433,653	895,810	557,905	859,836
Net position, beginning, as previously reported	3,578,974	3,701,890	5,283,903	4,419,083	8,862,877	8,120,973
Restatement	-	(86,942)	-	(30,990)	-	(117,932)
Net position, beginning, as restated	3,578,974	3,614,948	5,283,903	4,388,093	8,862,877	8,003,041
Net position, ending	\$ 3,703,226	\$ 3,578,974	\$ 5,717,556	\$ 5,283,903	\$ 9,420,782	\$ 8,862,877

Governmental activities – Governmental activities increased the Town's net position by \$124,252. Key elements of this increase are as follows:

- As previously noted the cost of Governmental Activities were less than received revenues. We have seen growth in intergovernmental revenues (primarily sales tax), indicating a healthier state economy.
- As noted earlier, we had a significant cash windfall of approximately \$191,205 from harvesting timber on town-owned land. The Timber revenues were immediately re-invested into capital outlay of a ladder fire truck, which is a lion's share of the Public Safety expenditures.

- Not including one time capital outlay, we have made cuts to operational expenditures within the Governmental Activities.

Business-type activities: Business-type activities increased the Town's net position by \$433,653. Key elements of this increase are as follows:

- As discussed previously, our Business Type Activities reflected no growth (less than 1%) in charges for services. This is the first year without significant growth within the last 5 years. We had a Yogurt factory begin operations within our town, which we had anticipated would be a 25% increase to our system usage/billings. The factory has been approximately a 10% increase. Fortunately, the Yogurt Factory intends to increase their production, which could lead to a 2-5% growth in usage/billings.
- Further growth in Business-type activities has been centered on investment in infrastructure.
- Our new Yogurt Factory created some unique challenges which we addressed through capital outlays. Primarily, we had to purchase a temporary pump to aid our existing lift station until a new station can be constructed. This one time capital outlay of approximately \$80,000 will be an extremely useful piece of equipment. It also represents a significant portion of our larger than normal expenditures in the Business-type activities.
- This fiscal year saw another round of tightening our billing practices for our water and sewer department.

We had an increase in expenditures of \$169,757; this growth reflects increases in water purchases and other operating expenditures.

Financial Analysis of the Town's Funds

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

Governmental Funds: The focus of the Town's governmental funds is to provide information on near-term inflows, outflows, and balances of usable resources. Such information is useful in assessing the Town's financing requirements. Specifically, unrestricted fund balance can be a useful measure of a government's net resources available for spending at the end of the fiscal year.

The general fund is the chief operating fund of the Town. At the end of the current fiscal year, the Town's fund balance available in the General Fund was \$859,442, while total fund balance reached \$2,151,877.

At June 30, 2015, the Town's governmental funds reported combined ending fund balances of \$2,096,139 with a net increase of \$160,027.

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

One large unanticipated revenue and expenditure occurred this fiscal year; as noted twice before, we harvested timber on town-owned property and used the proceeds to purchase a ladder truck for the Fire Department. The Board deliberated on this matter during the budget planning process and at the time were considering the pursuit of a grant. Great terms on financing were offered to the Town but grant funding was available. Bids for the timber were solicited within the fiscal year; as such the annual budget was amended to accommodate this revenue and capital outlay.

Another major amendment deals with our largest private employer. In the fiscal year, NC Department of Environment and Natural Resources allowed Grede Foundry to reclassify a major part of their operations as a recycling; this resulted in an industry reclassification under the NAICS system. Recycling operations are subject to a lower rate in taxes both of the state and local level. This ruling occurred in October 2014 and we had anticipated approximately a \$58,707 reduction in property tax incomes. In June 2015, NC Department of Revenue ruled that the reclassification would need to be retroactively applied to the taxes paid in 2014. In June 2015 the Town Board was required to refund \$58,707 in property taxes to Grede Foundry.

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 Water and Sewer Fund at the end of the fiscal year amounted to \$1,020,728 reflecting a \$55,188 increase from the prior year. Net investment in capital assets was \$4,696,828, an increase of \$347,475.

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 \$6,906,673 reflecting a \$940,482 increase (*net of accumulated depreciation*). These assets include buildings, land, machinery and equipment, water distribution system, and vehicles.

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

Governmental Funds:

Additions

- A used ladder truck (\$195,000)
- A security system for the Police Department that includes video camera, a dvr, and sound equipment for an interview room.
- A police cruiser
- New ballistic vests
- A road to access the town-owned property which allowed for timber to be harvested (\$15,000)
- New light poles in Monroe-Deaton Park
- New surveillance camera system in Monroe-Deaton Park
- New door on the pool building

Retirements and Dispositions

- Sold 30 acres of harvested timber land for the construction of a solar farm. This has reduced our land assets but in the long term will provide significant revenue via tax income.

Proprietary Funds:

Additions

- \$24,000 in pump repairs in excess of our annual anticipation
- A large temporary pump for \$72,994
- Substantial progress on upgrades and repairs at the wastewater treatment plant

Retirements

- Disposed of several old water pumps and meters as a result of the upgrades and repairs

Figure 4:

**Town of Biscoe
Capital Assets (net)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Land	\$ 358,715	\$ 487,192	\$ 14,900	\$ 14,900	\$ 373,615	\$ 502,092
Construction in progress	-	-	1,140,355	2,315,287	1,140,355	2,315,287
Buildings and improvements	401,903	437,645	-	-	401,903	437,645
Equipment, vehicles & infrastructure	793,970	692,001	254,867	167,822	1,048,837	859,823
Water distribution Systems	-	-	<u>3,941,963</u>	<u>1,851,344</u>	<u>3,941,963</u>	<u>1,851,344</u>
Total Capital Assets (net of accumulated depreciation)	<u>\$ 1,554,588</u>	<u>\$ 1,616,838</u>	<u>\$ 5,352,085</u>	<u>\$ 4,349,353</u>	<u>\$ 6,906,673</u>	<u>\$ 5,966,191</u>

Additional information on the Town's capital assets can be found in Note 5 of the Basic Financial Statements.

Long-term Debt. As shown in Note 9, the Town of Biscoe has long-term debt in two primary categories, 1) liabilities for employees accrued vacation leave; and, 2) the Water and Sewer promissory note. The promissory note was issued for major infrastructure enhancement at our wastewater treatment plant. As of June 30, 2015 the total amount due under the note is \$655,257 with repayment schedule to begin in March 2017 (70,125 annually for 20 years). We anticipate project completion by June 30, 2016 with total financing between \$1,350,000 to \$1,400,000.

Economic Factors and Next Year's Budget and Rates

The following key indicators reflect the economic environment of the Town.

- The Montgomery County unemployment rate reported by the Division of Employment Security was 12.5% in June 2011, 10.2% in June 2012, 10.2% in June 2013, 6.8% in June 2014 and 6.2% in June 2015. This improvement has been noted locally as employers have created new jobs. Montgomery County is barely above the State average (6.1%) unemployment rate. The Town of Biscoe believes these statistics indicate a local recovery of the recent recession.
- The solar farm is nearly completed with construction.
- 48 unit apartment complex located in the Town limits, is complete and is approximately 75% occupied.
- The proposed food processing plant, Carolina Dairy, opened in September 2014. It has created 50 jobs, and has invested over 6 million dollars in plant upgrades. They have indicated plans to increase production with a second and third production line. This will mean up to 15 more jobs and an increased water consumption.
- The *Heart of NC Megapark* has seen interest from a few industries but has not seen any announcements of investment by the end of the fiscal year.

Next Year's Budget Highlights for the Fiscal Year Ending June 30, 2016

Governmental Activities: The Town is providing its workers with Cost of Living Adjustment of 2.25%. The most significant impact to the Town is the loss of taxable value due to Grede Foundry having their industry code reclassified to recycling. This loss of taxable value has resulted in approximately \$58,000 in annual reductions to our property tax collections. Fortunately we have seen additional growth within the Town that has offset this loss: annexations performed in 2014 have increased our total tax base by \$1.3 million or \$7,540 in annual collections (Family Dollar and First Bank), the apartments are complete, Carolina Dairy has added approximately \$40,000 in annual tax receipts, and the solar farm is nearing completion.

Through programs provided by Duke Energy we have upgraded our office buildings lighting and our street lighting poles to be more efficient with Duke paying a majority of the expense. We should recognize significant reductions in utility billings.

Carolina Dairy will be the first business in town taking advantage of our economic incentives policy. We will be refunding them 50% of their taxes paid in 2016, we estimate the refund to be \$20,000.

Large investments for 2016 included \$25,000 for the repairing of the roads at the cemetery, \$20,000 for repairs to the tennis courts, and \$20,000 for resurfacing of the pool.

Business-Type Activities: As previously noted, our charges to customers have been flat for the first time in the last 5 years. We have identified the causes and anticipate our revenues will begin to grow again. In the fiscal year ended in June, 2015 Carolina Dairy had only been in production for 7 months; 2016 will see an additional 5 months of revenue from this major industrial customer.

As mentioned in the earlier economic factors, we have recruited multiple new investments in the community. With those investments, the Town will be needing to strengthen our Water and Sewer infrastructure. In 2014-2015, we have secured \$585,000 in grant funding from the CWMTF and a loan from the State Revolving Fund for \$1,400,000. The previously mentioned loan is a zero interest loan, but will create the first debt service in the history of the Town of Biscoe; this debt service will begin repayment in March 2017.

We have designed plans and solicited bid requests for upgrading the sewer lift station servicing the Carolina Dairy Yogurt Plant; the estimated project cost is \$335,000. We have secured local financing and anticipate completion before June 30, 2016. This will create our second debt service. Finally we have two smaller capital purchases planned for 2015-2016; a sewer line camera to aid in maintenance and an extended cab truck to transport labor to the work sites.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Clerk or Town Manager.

TOWN OF BISCOE, NORTH CAROLINA
STATEMENT OF NET POSITION
June 30, 2015

Exhibit 1

	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and investments	\$ 1,953,271	\$ 821,365	\$ 2,774,636
Restricted cash	29,420	1,601	31,021
Receivables, net			
Property taxes	22,159	-	22,159
Due from other governments	157,712	233,229	390,941
Accounts receivable	340	169,110	169,450
Accrued interest receivable	147	-	147
Note receivable, current portion		5,370	5,370
Inventories	-	28,524	28,524
Total current assets	<u>2,163,049</u>	<u>1,259,199</u>	<u>3,422,248</u>
Noncurrent assets:			
Unamortized financing costs	-	28,050	28,050
Note receivable, noncurrent portion	-	21,480	21,480
Net pension asset	56,999	20,317	77,316
LEO separation allowance	109,944	-	109,944
Capital assets:			
Land and other non-depreciable assets	358,715	1,155,255	1,513,970
Other capital assets, net of depreciation	1,195,873	4,196,830	5,392,703
Total capital assets	<u>1,554,588</u>	<u>5,352,085</u>	<u>6,906,673</u>
Total non-current assets	<u>1,721,531</u>	<u>5,421,932</u>	<u>7,143,463</u>
Total assets	<u>3,884,580</u>	<u>6,681,131</u>	<u>10,565,711</u>
DEFERRED OUTFLOWS OF RESOURCES			
Contributions to pension plan in current fiscal year	<u>34,926</u>	<u>12,449</u>	<u>47,375</u>
LIABILITIES			
Current liabilities:			
Accounts payable and accrued expenses	44,751	244,663	289,414
Compensated absences	25,737	22,537	48,274
Payable from restricted assets - customer deposits	-	1,601	1,601
Total current liabilities	<u>70,488</u>	<u>268,801</u>	<u>339,289</u>
Noncurrent liabilities			
Note payable	-	655,257	655,257
Total liabilities	<u>70,488</u>	<u>924,058</u>	<u>994,546</u>
DEFERRED INFLOWS OF RESOURCES			
Pension deferrals	<u>145,792</u>	<u>51,966</u>	<u>197,758</u>
NET POSITION			
Net investment in capital assets	1,554,588	4,696,828	6,251,416
Restricted for:			
Equitable sharing	458	-	458
Stabilization by State Statute	216,758	-	216,758
Streets	29,420		29,420
Unrestricted	<u>1,902,002</u>	<u>1,020,728</u>	<u>2,922,730</u>
Total net position	<u>\$ 3,703,226</u>	<u>\$ 5,717,556</u>	<u>\$ 9,420,782</u>

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

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TOWN OF BISCOE, NORTH CAROLINA
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2015

Exhibit 2

Function/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		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Government activities:							
General government	\$ 413,927	\$ 4,391	\$ -	\$ -	\$ (409,536)	\$ -	\$ (409,536)
Public safety	799,983	-	28,064	28,278	(743,641)	-	(743,641)
Transportation	243,926	-	53,726	-	(190,200)	-	(190,200)
Cultural and recreational	122,864	46,258	-	-	(76,606)	-	(76,606)
Economic and physical development	750,000	-	-	750,000	-	-	-
Total governmental activities	<u>2,330,700</u>	<u>50,649</u>	<u>81,790</u>	<u>778,278</u>	<u>(1,419,983)</u>	<u>-</u>	<u>(1,419,983)</u>
Business-type activities:							
Water and Sewer	1,096,228	980,802	-	532,800	-	417,374	417,374
Total business-type activities	<u>1,096,228</u>	<u>980,802</u>	<u>-</u>	<u>532,800</u>	<u>-</u>	<u>417,374</u>	<u>417,374</u>
Total primary government	<u>\$ 3,426,928</u>	<u>\$ 1,031,451</u>	<u>\$ 81,790</u>	<u>\$ 1,311,078</u>	<u>(1,419,983)</u>	<u>417,374</u>	<u>(1,002,609)</u>
General revenues:							
Ad valorem taxes					635,532	-	635,532
Local option taxes					318,977	-	318,977
Unrestricted intergovernmental					273,682	-	273,682
Investment earnings					2,148	-	2,148
Miscellaneous					313,896	16,279	330,175
Total general revenues					<u>1,544,235</u>	<u>16,279</u>	<u>1,560,514</u>
Change in net position					<u>124,252</u>	<u>433,653</u>	<u>557,905</u>
Net position, beginning					3,665,916	5,314,893	8,980,809
Restatement					(86,942)	(30,990)	(117,932)
Net position, beginning, restated					<u>3,578,974</u>	<u>5,283,903</u>	<u>8,862,877</u>
Net position, end of year					<u>\$ 3,703,226</u>	<u>\$ 5,717,556</u>	<u>\$ 9,420,782</u>

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

TOWN OF BISCOE, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

Exhibit 3
Page 1 of 2

	Major Funds		Total Governmental Funds
	General Fund	OSFM Grants Fund	
Assets			
Cash and investments	\$ 1,950,450	\$ 2,821	\$ 1,953,271
Restricted cash	29,420	-	29,420
Receivables, net			
Property taxes	22,159	-	22,159
Due from other governments	157,712	-	157,712
Accounts receivable	340	-	340
Accrued interest receivable	147	-	147
Due from other funds	58,559	-	58,559
Total assets	\$ 2,218,787	\$ 2,821	\$ 2,221,608
Liabilities			
Accounts payable and accrued liabilities	\$ 44,751	\$ -	\$ 44,751
Due to other funds	-	58,559	58,559
Total liabilities	44,751	58,559	103,310
Deferred inflows of resources			
Property tax receivable	22,159	-	22,159
Fund balances (deficit)			
Restricted			
Equitable sharing	458	-	458
Stabilization by State Statute	216,758	-	216,758
Streets	29,420	-	29,420
Assigned			
Subsequent year's expenditures	251,811	-	251,811
Capital reserve fund	793,988	-	793,988
Public safety	-	-	-
Unassigned	859,442	(55,738)	803,704
Total fund balances (deficit)	2,151,877	(55,738)	2,096,139
Total liabilities, deferred inflows of resources and fund balances (deficit)	\$ 2,218,787	\$ 2,821	\$ 2,221,608

TOWN OF BISCOE, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2015

Exhibit 3
Page 2 of 2

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:

Total fund balances, governmental funds		\$ 2,096,139
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds		
Gross capital assets at historical cost	\$ 4,623,715	
Accumulated depreciation	<u>(3,069,127)</u>	1,554,588
Net pension asset		56,999
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position		34,926
Liabilities for earned revenues considered deferred inflows of resources in fund statements		22,159
Liabilities that, because they are not due and payable in the current period, do not require current resources to pay and are therefore not recorded in the fund financial statements:		
Compensated absences		(25,737)
LEO Separation Allowance (net pension asset)		109,944
Pension related deferrals		<u>(145,792)</u>
Net position of governmental activities		<u><u>\$ 3,703,226</u></u>

TOWN OF BISCOE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE (DEFICIT) - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

Exhibit 4
Page 1 of 2

	Major Funds			Total Governmental Funds
	General Fund	OSFM Grants Fund	CDBG Grant Fund	
Revenues				
Ad valorem taxes	\$ 674,478	\$ -	\$ -	\$ 674,478
Unrestricted intergovernmental	592,659	-	-	592,659
Restricted intergovernmental	81,790	28,278	750,000	860,068
Permits and fees	4,391	-	-	4,391
Sales and services	46,258	-	-	46,258
Investment earnings	2,148	-	-	2,148
Miscellaneous	249,753	-	-	249,753
Total revenues	1,651,477	28,278	750,000	2,429,755
Expenditures				
General government	430,013	-	-	430,013
Public safety	874,987	78,986	-	953,973
Transportation	213,853	-	-	213,853
Cultural and recreational	114,509	-	-	114,509
Economic and physical development	-	-	750,000	750,000
Total expenditures	1,633,362	78,986	750,000	2,462,348
Revenues over (under) expenditures	18,115	(50,708)	-	(32,593)
Other financing sources (uses)				
Transfer to OSFM grant fund	(25,251)	-	-	(25,251)
Transfer from capital reserve fund	-	25,251	-	25,251
Sale of capital assets	192,620	-	-	192,620
Total other financing sources (uses)	167,369	25,251	-	192,620
Net change in fund balance	185,484	(25,457)	-	160,027
Fund balance (deficit), beginning of year	1,966,393	(30,281)	-	1,936,112
Fund balance (deficit), end of year	\$ 2,151,877	\$ (55,738)	\$ -	\$ 2,096,139

TOWN OF BISCOE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended June 30, 2015

Exhibit 4
Page 2 of 2

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

Net changes in fund balance - total governmental funds \$ 160,027

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

Capital outlay	\$	283,804	
Depreciation		(245,503)	
Adjustment to capital assets		27,926	66,227

Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities			34,926
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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			(38,946)
Proceeds from sale of capital assets			(192,620)
Gain on disposal of capital assets			64,143

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

LEO Separation Allowance (net pension asset)			31,535
Pension expense			(1,851)
Compensated absences			811

Total changes in net position of governmental activities			\$ 124,252
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TOWN OF BISCOE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND AND ANNUALLY BUDGETED CAPITAL RESERVE FUND
For the Year Ended June 30, 2015

Exhibit 5

	Budget		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
Revenues				
Ad valorem taxes	\$ 660,673	\$ 660,673	\$ 674,478	\$ 13,805
Unrestricted intergovernmental	527,823	527,823	592,659	64,836
Restricted intergovernmental	84,835	84,835	81,790	(3,045)
Permits and fees	2,750	2,750	4,391	1,641
Sales and services	37,000	35,500	46,258	10,758
Investment earnings	1,000	1,000	1,844	844
Miscellaneous	1,000	2,500	249,753	247,253
Total revenues	<u>1,315,081</u>	<u>1,315,081</u>	<u>1,651,173</u>	<u>336,092</u>
Expenditures				
General government	432,040	534,793	430,013	104,780
Public safety	686,791	893,280	874,987	18,293
Transportation	297,977	297,977	213,853	84,124
Cultural and recreational	152,843	162,843	114,509	48,334
Total expenditures	<u>1,569,651</u>	<u>1,888,893</u>	<u>1,633,362</u>	<u>255,531</u>
Revenues over (under) expenditures	<u>(254,570)</u>	<u>(573,812)</u>	<u>17,811</u>	<u>591,623</u>
Other financing uses				
Transfer from other funds	89,300	89,300	90,680	1,380
Sale of capital assets	80,000	269,864	192,620	(77,244)
Total other financing sources	<u>169,300</u>	<u>359,164</u>	<u>283,300</u>	<u>(75,864)</u>
Revenues over (under) expenditures and other financing sources	<u>(85,270)</u>	<u>(214,648)</u>	<u>301,111</u>	<u>515,759</u>
Fund balance appropriated	<u>85,270</u>	<u>214,648</u>	<u>-</u>	<u>(214,648)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>301,111</u>	<u>\$ 301,111</u>
Fund balance, beginning of year			<u>1,056,778</u>	
Fund balance, end of year			1,357,889	
A legally budgeted Capital Reserve Fund is consolidated into the General Fund for reporting purposes:				
Investment earnings			304	
Transfer to general fund			(90,680)	
Transfer to OSFM grants fund			(25,251)	
Fund balance, beginning of year			<u>909,615</u>	
Fund balances, ending (Exhibit 4)			<u>\$ 2,151,877</u>	

TOWN OF BISCOE, NORTH CAROLINA
STATEMENT OF NET POSITION - PROPRIETARY FUND
June 30, 2015

Exhibit 6

Assets

Current assets:

Cash and investments	\$ 821,365
Restricted cash	1,601
Accounts receivable, net	169,110
Due from other governments	233,229
Note receivable, current portion	5,370
Inventories	28,524
Total current assets	<u>1,259,199</u>

Noncurrent assets:

Unamortized financing costs	28,050
Note receivable, noncurrent portion	21,480
Net pension asset	20,317
Capital assets:	
Land and other non-depreciable assets	1,155,255
Other capital assets, net of depreciation	4,196,830
Total capital assets, net	<u>5,352,085</u>

 Total noncurrent assets 5,421,932

 Total assets 6,681,131

Deferred outflows of resources

Contributions to pension plan	<u>12,449</u>
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Liabilities

Current liabilities:

Accounts payable and accrued liabilities	244,663
Compensated absences	22,537
Payable from restricted assets - customer deposits	1,601

 Total current liabilities 268,801

Noncurrent liabilities:

Note payable	<u>655,257</u>
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 Total liabilities 924,058

Deferred inflows of resources

Pension deferrals	<u>51,966</u>
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Net position

Net investment in capital assets	4,696,828
Unrestricted	<u>1,020,728</u>

 Total net position \$ 5,717,556

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

TOWN OF BISCOE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET POSITION
PROPRIETARY FUND
For the Year Ended June 30, 2015

Exhibit 7

Operating revenues:	
Charges for services	\$ 959,795
Water and sewer taps and connection fees	8,005
Other	<u>13,002</u>
Total operating revenues	<u>980,802</u>
Operating expenses:	
Salaries and employee benefits	256,485
Other operating expenditures	378,146
Water purchases for resale	281,811
Depreciation	<u>179,786</u>
Total operating expenses	<u>1,096,228</u>
Loss from operations	<u>(115,426)</u>
Nonoperating revenues:	
Other nonoperating revenue	<u>16,279</u>
Loss before capital contributions	(99,147)
Capital Contributions	<u>532,800</u>
Change in net position	<u>433,653</u>
Net position, beginning of year, as previously reported	5,314,893
Restatement	<u>(30,990)</u>
Net position, beginning of year, as restated	<u>5,283,903</u>
Net position, end of year	<u><u>\$ 5,717,556</u></u>

TOWN OF BISCOE, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
For the Year Ended June 30, 2015

Exhibit 8

Cash flows from operating activities	
Cash received from customers	\$ 940,813
Cash paid for goods and services	(426,918)
Cash paid to employees for services	(274,609)
Customer deposits refunded	<u>(1,099)</u>
Net cash provided by operating activities	<u>238,187</u>
Cash flows from noncapital financing activities	
Advances under note receivable	(26,850)
Other revenues	<u>16,279</u>
Net cash used by noncapital financing activities	<u>(10,571)</u>
Cash flows from capital and related financing activities	
Acquisition and construction of capital assets	(1,217,940)
Capital contributions	1,102,349
Proceeds from issuance of note payable	655,257
Issuance costs on note payable	<u>(28,050)</u>
Net cash provided by capital and related financing activities	<u>511,616</u>
Net increase in cash and investments	739,232
Cash and investments, beginning of year	<u>83,734</u>
Cash and investments, end of year	<u><u>\$ 822,966</u></u>
Reconciliation of operating income to net cash provided by operating activities:	
Loss from operations	\$ (115,426)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	179,786
Loss on disposal of capital assets	35,422
Pension expense	659
Change in assets and liabilities:	
Increase in accounts receivable	(39,989)
Increase in inventories	(3,758)
Increase in deferred outflows of resources for pensions	(12,449)
Increase in accounts payable and accrued liabilities	198,622
Decrease in compensated absences	(3,581)
Decrease in customer deposits	<u>(1,099)</u>
Net cash used by operating activities	<u><u>\$ 238,187</u></u>

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

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**TOWN OF BISCOE, NORTH CAROLINA
STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUND
June 30, 2015**

Exhibit 9

	<u>Pension Trust Fund</u> <u>Special Separation</u> <u>Allowance Fund</u>
Assets	
Cash and investments	\$ 41,216
Liabilities	
Accrued benefits	614
Net position	
Reserved for employees' pension benefits	\$ 40,602

TOWN OF BISCOE, NORTH CAROLINA
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUND
For the Year Ended June 30, 2015

Exhibit 10

	<u>Pension Trust Fund</u> <u>Special Separation</u> <u>Allowance Fund</u>
Additions:	
Municipal contribution	\$ 25,000
Investment earnings	183
Total additions	<u>25,183</u>
Deductions:	
Employee benefits	<u>23,012</u>
Net change	2,171
Net position, beginning of year	<u>38,431</u>
Net position, end of year	<u>\$ 40,602</u>

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Town of Biscoe ("Town") conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant accounting policies:

Reporting Entity

The Town is a municipal corporation which is governed by an elected mayor and a five-member council. As required by generally accepted accounting principles, these financial statements present the Town as well as any separate entity for which the Town is financially accountable. For the year ended June 30, 2015, no other entity is included in the Town's financial statements.

Basis of Presentation

Government-wide Statements - The statement of net position and the statement of activities display information about the primary government. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements - The fund financial statements provide information about the Town's funds, including fiduciary fund. Separate statements for each fund category – *governmental, proprietary, and fiduciary* – 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 nonmajor 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 investment earnings, result from non-exchange transactions or ancillary activities.

The Town reports the following major governmental funds:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for public safety, streets, sanitation, parks and recreation, and general government services. Additionally, the Town has legally adopted a Capital Reserve Fund. Under GASB 54 guidance, the Capital Reserve Fund is consolidated in the General Fund. The budgetary comparison for the Capital Reserve Fund has been included in the supplemental information.

**TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Office of State Fire Marshall (OSFM) Grant Funds - These grant funds are provided by the State of North Carolina to be used for equipment upgrade and replacement within the Town's Fire Department.

Community Development Block Grant (CDBG) Fund – This fund is used for building renovation activities to serve the new Wright Foods facility which will aid economic development for the Town.

The Town reports the following major enterprise fund:

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

The Town reports the following fiduciary fund:

Special Separation Allowance Pension Trust Fund – This fund is used to account for the Law Enforcement Officers' Special Separation Allowance, a single-employer, public employee retirement system.

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

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

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

**TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting (Continued)

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 revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operation of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Montgomery 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. Grant revenues which are unearned at year-end are recorded as deferred 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 is 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.

Budgetary Data

The Town's budgets are adopted as required by North Carolina General Statutes. An annual budget is adopted for the general and enterprise funds. All annual appropriations lapse at fiscal year-end. Project ordinances are adopted for the Governmental Special Revenue Funds and the Enterprise Capital Project Funds. The enterprise fund projects are consolidated with the operating fund for reporting purposes. 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 and at the project level for the multi-year funds. The Town manager is authorized by the budget ordinance to transfer appropriations between functional areas within a fund up to \$1,000; however, any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$1,000 must be approved by the governing board. Amendments were made during the year to the original budget.

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Deposits and Investments

All deposits of the Town are made in board-designated official depositories and are secured as required by State law [G.S. 159-31]. The Town may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town 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 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 non-guaranteed federal agencies; certain high quality issues of commercial paper and banker's acceptances; and the North Carolina Capital Management Trust. The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT – Cash Portfolio, a SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT – Term Portfolio's securities are valued at fair value.

In accordance with State law, the Town has invested in securities which are callable and which provide for periodic interest rate increases in specific increments until maturity. These investments are reported at fair value as determined by quoted market prices.

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.

Restricted Assets

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

Restricted Cash:

Governmental Activities	
Streets - Powell Bill	\$ 29,420
Business-type Activities	
Water and Sewer Fund	
Customer Deposits	<u>1,601</u>
Total Restricted Cash	<u>\$ 31,021</u>

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1, the beginning of the fiscal year. The taxes are due on September 1; however, interest does not accrue until the following January 6. The taxes are based on the assessed values as of January 1, 2011. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

Allowances for Doubtful Accounts

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

Inventory

Inventories are maintained for all enterprise fund supplies. They are valued at cost (first-in, first out), which approximates market. The inventory of the enterprise fund consists of expendable supplies that are recorded as an expenditure when consumed rather than when purchased.

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$3,000, and estimated useful life of two years. Minimum capitalization costs for land, buildings, furniture and equipment, computer software, and vehicles have been set at \$3,000. Purchased or constructed assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of road network and water and sewer system assets that were acquired or that received substantial improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Capital assets are depreciated using the straight-line method over the assets' estimated useful lives.

Buildings	29 years
Furniture and office equipment	7-10 years
Maintenance and construction equipment	5-7 years
Medium and heavy motor vehicles	5-7 years
Computer Software	5 years
Automobiles and light trucks	3-5 years

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 meet 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 two items that meet this criterion for this category – property taxes receivable and deferrals of pension expense that result from the implementation of GASB Statement 68.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

Fund Balance

In the governmental fund financial statements, fund balance is composed of four 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:

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 Equitable Sharing – portion of fund balance that is restricted through an agreement entered into between the Federal government, the Town's police department, and the governing body.

 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.

Committed fund balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town's governing body (highest level of decision-making authority). Any changes or removal of specific purpose requires majority action by the governing body. 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.

The Town has no committed fund balance as of June 30, 2015.

Assigned fund balance – portion of fund balance that the Town intends to use for specific purposes.

 Assigned for capital reserve fund – portion of fund balance that is held in the capital reserve fund for future purposes.

 Assigned for public safety – portion of fund balance that is held in the OSFM grants fund for future purposes.

 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 within funds up to \$1,000.

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

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance (Continued)

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

The Town has an informal fund balance policy for the general fund which instructs management to conduct the business of the Town in such a manner that available fund balance is at least equal to or greater than 20% of budgeted expenditures. Any portion of the general fund balance in excess of 20% of budgeted expenditures may be appropriated.

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'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.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Deficit in Fund Balance of Individual Funds

At June 30, 2015, the Town had a fund deficit of \$55,738 in the OSFM Grants Fund. This deficit is the result of timing related to certificate of deposit maturities that will be used to fund the expenditures. Upon maturity and close out of the project, the Town will transfer the funds as approved in the project ordinance.

III. CASH, CASH EQUIVALENTS AND INVESTMENTS

Deposits

All the deposits of the Town 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 agents in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agent in its name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization, and this risk may increase in periods of high cash flows.

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

III. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued)

Deposits (Continued)

However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2015, the Town's deposits had a carrying amount of \$2,836,587 and a bank balance of \$3,011,063. Of the bank balance, \$750,000 was covered by federal depository insurance, and \$2,261,063 was secured through the pooling method. At June 30, 2015, the Town's point of sale cash drawer totaled \$180.

Investments

At June 30, 2015, the Town had \$10,106 invested with the North Carolina Capital Management Trust's Cash Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

IV. RECEIVABLES - ALLOWANCES FOR DOUBTFUL ACCOUNTS

The receivables presented in the Balance Sheet and the Statement of Net Position are presented net of the following allowances for doubtful accounts:

General Fund	
Ad valorem taxes	<u>\$33,000</u>
Water and Sewer Fund	
Customers	<u>\$24,500</u>

V. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2015, is summarized below:

Governmental Activities:

	July 1, 2014	Additions	Retirements	Transfers/ Reclassifications	June 30, 2015
Non depreciable assets:					
Land	\$ 487,192	\$ -	\$ (128,477)	\$ -	\$ 358,715
Depreciable assets:					
Buildings and improvements	2,152,836	14,310	-	-	2,167,146
Equipment and vehicles	1,625,734	269,494	(38,952)	27,926	1,884,202
Infrastructure	<u>213,652</u>	-	-	-	<u>213,652</u>
	<u>3,992,222</u>	<u>283,804</u>	<u>(38,952)</u>	<u>27,926</u>	<u>4,265,000</u>
Grand Total	<u>4,479,414</u>	<u>283,804</u>	<u>(167,429)</u>	<u>27,926</u>	<u>4,623,715</u>

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

V. CAPITAL ASSETS (Continued)

	July 1, 2014	Additions	Retirements	Transfers/ Reclassifications	June 30, 2015
Less: Accumulated depreciation and amortization for:					
Buildings and improvements to land and buildings	\$ 1,715,191	\$ 50,052	\$ -	\$ -	\$ 1,765,243
Equipment and vehicles	1,076,641	184,764	(38,952)	-	1,222,453
Infrastructure	70,744	10,687	-	-	81,431
	<u>2,862,576</u>	<u>245,503</u>	<u>(38,952)</u>	<u>-</u>	<u>3,069,127</u>
Depreciable assets – net	<u>1,129,646</u>	<u>38,301</u>	<u>-</u>	<u>27,926</u>	<u>1,195,873</u>
Governmental activity capital assets – net	<u>\$ 1,616,838</u>	<u>\$ 38,301</u>	<u>\$ (128,477)</u>	<u>\$ 27,926</u>	<u>\$ 1,554,588</u>

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

General government	\$ 46,292
Public safety	146,118
Cultural and recreation	18,611
Transportation	<u>34,482</u>
Total depreciation expense	<u>\$ 245,503</u>

Business Type Activities:

	July 1, 2014	Additions	Retirements	Transfers/ Reclassifications	June 30, 2015
Non depreciable assets:					
Land	\$ 14,900	\$ -	-	-	\$ 14,900
Construction in progress	2,315,287	1,066,138	-	(2,241,070)	1,140,355
	<u>2,330,187</u>	<u>1,066,138</u>	<u>-</u>	<u>(2,241,070)</u>	<u>1,155,255</u>
Depreciable assets:					
Plant, substations, lines, and related equipment	4,217,705	-	(35,219)	2,241,070	6,423,556
Equipment and vehicles	845,678	151,802	(232,672)	-	764,808
	<u>5,063,383</u>	<u>151,802</u>	<u>(267,891)</u>	<u>2,241,070</u>	<u>7,188,364</u>
Grand Total	<u>7,393,570</u>	<u>1,217,940</u>	<u>(267,891)</u>	<u>-</u>	<u>8,343,619</u>
Less: Accumulated depreciation:					
Plant, substations, lines, and related equipment	2,366,361	123,157	(7,925)	-	2,481,593
Equipment and vehicles	677,856	56,629	(224,544)	-	509,941
	<u>3,044,217</u>	<u>179,786</u>	<u>(232,469)</u>	<u>-</u>	<u>2,991,534</u>
Depreciable assets – net	<u>2,019,166</u>	<u>(27,984)</u>	<u>(35,422)</u>	<u>2,241,070</u>	<u>4,196,830</u>
Business type activities capital assets – net	<u>\$ 4,349,353</u>	<u>\$ 1,038,154</u>	<u>\$ (35,422)</u>	<u>\$ -</u>	<u>\$ 5,352,085</u>

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

V. CAPITAL ASSETS (Continued)

The Town has active construction projects related to waste water treatment plant improvements as of June 30, 2015. At year-end, the Town has spent \$1,140,355 under construction and engineering contracts and has a remaining commitment of \$639,600.

VI. PAYABLES

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

	<u>Vendors</u>	<u>Salaries and benefits</u>	<u>Total</u>
Governmental Activities:			
General	<u>\$ 18,412</u>	<u>\$ 26,339</u>	<u>\$ 44,751</u>
Business-Type Activities:			
Water and Sewer	<u>\$ 238,532</u>	<u>\$ 6,131</u>	<u>\$ 244,663</u>

VII. PENSION PLAN AND POSTEMPLOYMENT OBLIGATIONS

Local Governmental Employees' Retirement System

Plan Description - The Town is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. LGERS provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. 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 to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

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.

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

VII. PENSION PLAN AND POSTEMPLOYMENT OBLIGATIONS (Continued)

Local Governmental Employees' Retirement System (Continued)

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 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 was \$47,375 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 \$77,316 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 0.0131%, which was a decrease of 0.002% from its proportion measured as of June 30, 2013.

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

VII. PENSION PLAN AND POSTEMPLOYMENT OBLIGATIONS (Continued)

For the year ended June 30, 2015, the Town recognized pension expense of \$2,511. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 8,448
Changes of assumptions	-	-
Net difference between projected and actual earnings on pension plan investments	-	179,989
Changes in proportion and differences between Town contributions and proportionate share of contributions	-	9,321
Town contributions subsequent to the measurement date	<u>47,375</u>	<u>-</u>
Total	<u>\$ 47,375</u>	<u>\$ 197,758</u>

The Town reported \$47,375 as deferred outflows of resources 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	\$ (49,451)
2017	(49,451)
2018	(49,451)
2019	<u>(49,405)</u>
Total	<u>\$ (197,758)</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.

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

VII. PENSION PLAN AND POSTEMPLOYMENT OBLIGATIONS (Continued)

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	<u>4.5%</u>	3.7%
Total	<u>100%</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.

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

VII. PENSION PLAN AND POSTEMPLOYMENT OBLIGATIONS (Continued)

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%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	\$262,443	(77,316)	(362,382)

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.

Law Enforcement Officers Special Separation Allowance

Plan Description - The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer retirement 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	2
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	<u>8</u>
	<u>10</u>

A separate report was not issued for the plan.

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

VII. PENSION PLAN AND POSTEMPLOYMENT OBLIGATIONS (Continued)

Summary of Significant Accounting Policies:

Basis of Accounting - Financial statements for the Separation Allowance are prepared using the accrual basis of accounting. Employer contributions to the plan are recognized when due and when the Town has made a formal commitment to provide the contributions. Benefits are recognized when due and payable in accordance with the terms of the plan.

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

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

Method Used to Value Investments - Investments are reported at fair value. Short-term money market debt instruments, deposits, and repurchase agreements, are reported at cost or amortized cost, which approximates fair value. Certain longer term United States Government and United States Agency securities are valued at the last reported sales price.

Contributions - The Town is required by Article 12D of G.S. Chapter 143 to provide these retirement benefits and has chosen to fund the amounts necessary to cover the benefits earned by making contributions based on actuarial valuations. For the current year, the Town contributed \$46,055, or 19.37% of annual covered payroll. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings.

The annual required contribution for the current year was determined as part of the December 31, 2014, actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5% investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.25 – 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include post-employment benefit increases. The actuarial value of assets was determined using the market value of investments. The unfunded actuarial accrued liability is being amortized as a level dollar of projected payroll on a closed basis. The remaining amortization period at December 31, 2014 was 16 years.

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

Annual required contribution	\$ 11,816
Interest on net pension obligation	(3,920)
Adjustment to annual required contribution	<u>6,624</u>
Annual pension cost	14,520
Contributions made	<u>(46,055)</u>
Decrease in net pension obligation	(31,535)
Net pension asset beginning of year	<u>(78,409)</u>
 Net pension asset end of year	 <u><u>\$ (109,944)</u></u>

**TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

VII. PENSION PLAN AND POSTEMPLOYMENT OBLIGATIONS (Continued)

Three Year Trend Information

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Asset</u>
6-30-13	\$13,083	194.40%	\$(43,289)
6-30-14	12,946	371.28%	(78,409)
6-30-15	14,520	317.18%	(109,944)

Funded Status and Funding Progress - As of December 31, 2014, the most recent actuarial valuation date, the plan was 85.90 percent funded. The actuarial accrued liability for benefits was \$158,954, and the actuarial value of assets was \$136,546 resulting in an unfunded actuarial accrued liability (UAAL) of \$22,408. The covered payroll (annual payroll of active employees covered by the plan) was \$237,807 and the ratio of the UAAL to the covered payroll was 9.42 percent.

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 the plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy - Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2015, were \$26,486, which consisted of \$19,762 from the Town and \$6,724 from the law enforcement officers.

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

VII. PENSION PLAN AND POSTEMPLOYMENT OBLIGATIONS (Continued)

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

For the fiscal year ended June 30, 2015, the Town made contributions to the State for death benefits of \$-0-. The Town's required contributions for employees not engaged in law enforcement and for law enforcement officers represented 0.00% and 0.00% of covered payroll, respectively.

Due to a surplus in the death benefit, a decision was made by the State to temporarily stop employer contributions to the LGERS Death Benefit Plan beginning July 1, 2012. A temporary relief period based on the number of years the employer has contributed as of December 31, 2010 was established as follows:

<u>Number years contributing</u>	<u>Years relief</u>	<u>Fiscal year contributions resume</u>
10-20	2	2015
20 or more	3	2016

The period of reprieve is determined separately for law enforcement officers. The Town will have a three year reprieve because it has been contributing for more than 20 years. Contributions will resume in the fiscal year beginning July 1, 2015.

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

VIII. DEFERRED OUTFLOWS AND INFLOWS OF RESOURCES

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

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ <u>47,375</u>

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

<u>Source</u>	<u>Amount</u>
Taxes receivable (General Fund), less penalties	\$ 22,159
Pension deferrals	<u>197,758</u>
Total	<u>\$ 219,917</u>

IX. LONG-TERM DEBT

In March 2015, the Town entered into a promissory note with the Department of Environment and Natural Resources for improvement for the Town's wastewater treatment plant. The note provides for funding for the project up to \$1,402,500. The note carries no interest and is payable in annual installments of \$70,125 beginning March 2017 for a period of 20 years. Annual debt service payments as of June 30, 2015, are as follows:

Year ended June 30:	
2016	\$ -
2017	70,125
2018	70,125
2019	70,125
2020	70,125
Thereafter	<u>374,757</u>
Total	<u>\$ 655,257</u>

The following is a summary of changes in the Town's long-term obligations for the fiscal year ended June 30, 2015:

	<u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2015</u>	<u>Current Portion</u>
Governmental activities:					
Compensated absences	\$ 26,548	\$ 25,737	\$ 26,548	\$ 25,737	\$ 25,737
Net pension liability	<u>118,189</u>	<u>-</u>	<u>118,189</u>	<u>-</u>	<u>-</u>
	<u>\$ 144,737</u>	<u>\$ 25,737</u>	<u>\$ 144,737</u>	<u>\$ 25,737</u>	<u>\$ 25,737</u>
Business-type activities:					
Compensated absences	\$ 26,118	\$ 22,537	\$ 26,118	\$ 22,537	\$ 22,537
Note payable	-	655,257	-	655,257	-
Net pension liability	<u>42,127</u>	<u>-</u>	<u>42,127</u>	<u>-</u>	<u>-</u>
	<u>\$ 68,245</u>	<u>\$ 677,794</u>	<u>\$ 68,245</u>	<u>\$ 677,794</u>	<u>\$ 22,537</u>

**TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

IX. LONG-TERM DEBT (Continued)

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

Compensated absences for governmental activities are typically liquidated by the general and other governmental funds.

At June 30, 2015, the Town had a legal debt margin of \$10,281,060.

X. FUND BALANCE

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

<i>Total fund balance-General Fund</i>	\$ 2,151,877
Less:	
Stabilization by State Statute	216,758
Streets	458
Equitable Sharing Agreement	29,420
Appropriated Fund Balance in 2015-16 budget	251,811
Capital Reserve Fund	793,988
Remaining Fund Balance	859,442

XI. INTERFUND BALANCES AND ACTIVITY

Balances due to/from other funds at June 30, 2015 consist of the following:

Due to the General Fund from the OSFM Grants Fund for project expenditures paid by the General Fund	<u>\$ 58,559</u>
--	------------------

Transfers to/from funds at June 30, 2015, consist of the following:

From the Capital Reserve Fund to the OSFM Grants Fund for the Town's match on a grant	\$ 25,251
From the Water and Sewer Fund to the Enterprise Capital Project Fund for debt issuance costs	<u>28,050</u>
	<u>\$ 53,301</u>

**TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015**

XII. RISK MANAGEMENT

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town has property, general liability, and auto liability coverage of \$1 million per occurrence, worker's compensation coverage of up to statutory limits, and employee health coverage up to \$2 million lifetime limit. The liability and property exposures are reinsured through commercial companies for claims against property, general liability, and auto liability in excess of \$500,000 and \$300,000 statutory limits for worker's compensation. The pools are reinsured for annual employee health claims in excess of \$150,000. 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 carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the last three fiscal years.

The Town is not required to carry flood insurance because the Town is not in an area of the State that has been mapped and designated an "A" area (an area close to a river, lake or stream) by the Federal Emergency Management Agency.

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

XIII. JOINTLY GOVERNED ORGANIZATION

The Town, in conjunction with 7 counties and 42 other municipalities, established the Piedmont Triad Regional Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and state agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$550 to the Council during the fiscal year ended June 30, 2015.

TOWN OF BISCOE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
For the Year Ended June 30, 2015

XIV. SUMMARY DISCLOSURE OF SIGNIFICANT CONTINGENCIES

Federal and State Assisted Programs

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

XV. 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 ending June 30, 2015. The implementation of the statement required the Town to record beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$86,942 and \$30,990, respectively.

XVI. SUBSEQUENT EVENTS

On November 3, 2015, the Town entered into a \$350,000 installment loan with a bank to upgrade the industrial park pump station. The loan bears an interest rate of 1.75% with interest and principal payable monthly under a 59 month amortization. Annual principal payments starting in fiscal year 2016 are as follows:

Year ended June 30:		
2016	\$	39,962
2017		69,447
2018		70,690
2019		71,955
2020		73,242
Thereafter		<u>24,704</u>
Total	\$	<u>350,000</u>

***REQUIRED SUPPLEMENTAL
FINANCIAL DATA***

This Section contains additional information required by
generally accepted accounting principles

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of the Proportionate Share of the Net Pension Asset for the Local Government Employees' Retirement System
- Schedule of Contributions for the Local Government Employees' Retirement System

**TOWN OF BISCOE, NORTH CAROLINA
 LAW ENFORCEMENT OFFICERS' SPECIAL
 SEPARATION ALLOWANCE
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS**

Schedule 1

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets (a)</u>	<u>Actuarial Accrued Liability (AAL) Projected Unit Credit (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded Ratio (a/b)</u>	<u>Covered Payroll (c)</u>	<u>UAAL as a % of Covered payroll ((b - a)/c)</u>
12-31-07	\$72,054	\$90,660	\$18,606	79.48%	\$287,022	6.48%
12-31-08	80,487	135,601	55,114	59.36%	249,856	22.06%
12-31-09	89,169	155,066	65,897	57.50%	254,781	25.86%
12-31-10	89,169	165,402	76,233	53.91%	253,003	30.13%
12-31-11	55,109	163,971	108,862	33.61%	246,738	44.12%
12-31-12	80,706	162,305	81,599	49.72%	290,438	28.08%
12-31-13	80,805	168,508	87,703	47.95%	274,761	31.92%
12-31-14	136,546*	158,954	22,408	85.90%	237,807	9.42%

* The actuarial value of assets represents the value of the Law Enforcement Officers' Special Separation Allowance Fund (the "Fund") certificate of deposit as of December 31, 2014. This certificate of deposit is being held intact by the Fund in order to pay future benefits. Previously, the General Fund paid for the benefits of the retired sworn law enforcement officers. On the Statement of Fiduciary Net Position, the amount paid on-behalf of the Fund by the General Fund is recognized as an offset to cash and investments. In the fiscal year ending June 30, 2016, the Town intends to transfer an amount equal to the benefits previously paid to restore the offset to cash and investments in the Fund.

**TOWN OF BISCOE, NORTH CAROLINA
LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Schedule 2

<u>Year ended June 30</u>	<u>Annual required contribution</u>	<u>Percentage contributed</u>
2008	\$ 5,065	99.37%
2009	5,670	205.96%
2010	8,001	256.17%
2011	9,897	245.90%
2012	11,151	107.61%
2013	12,705	200.18%
2014	11,583	414.97%
2015	11,816	389.77%

**TOWN OF BISCOE, NORTH CAROLINA
 LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM –
 LAST TWO FISCAL YEARS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF PROPORTIONATE SHARE OF NET PENSION ASSET**

Schedule 3

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 47,375	\$ 42,384
Contributions in relation to the contractually required contribution	<u>47,375</u>	<u>42,384</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 653,042	\$ 591,129
Contributions as a percentage of covered-employee payroll	7.25%	7.17%

**TOWN OF BISCOE, NORTH CAROLINA
 LOCAL GOVERNMENT EMPLOYEES' RETIREMENT SYSTEM –
 LAST TWO FISCAL YEARS
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF EMPLOYER CONTRIBUTIONS**

Schedule 4

	<u>2015</u>	<u>2014</u>
Town's proportion of the net pension liability (asset) (%)	0.0131%	0.0133%
Town's proportion of the net pension liability (asset) (\$)	\$ (77,316)	\$ 160,316
Town's covered-employee payroll	\$ 591,129	\$ 577,872
Town's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(13.08)%	27.74%
Plan fiduciary net position as a percentage of the total pension liability	102.64%	94.35%

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

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

TOWN OF BISCOE, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Revenues			
Ad valorem taxes			
Taxes		\$ 669,648	
Penalties and interest		4,830	
Total ad valorem taxes	<u>\$ 660,673</u>	<u>674,478</u>	<u>\$ 13,805</u>
Unrestricted intergovernmental			
Local option sales tax		318,977	
Telecommunications sales tax		11,813	
Utilities sales tax		224,214	
Video franchise fee		6,382	
Beer and wine taxes		8,170	
Solid waste disposal tax		1,091	
Tax refunds		22,012	
Total unrestricted intergovernmental	<u>527,823</u>	<u>592,659</u>	<u>64,836</u>
Restricted intergovernmental			
Powell Bill allocation		53,726	
DSM revenues		8,716	
Grant funds		19,348	
Total restricted intergovernmental	<u>84,835</u>	<u>81,790</u>	<u>(3,045)</u>
Permits and fees	<u>2,750</u>	<u>4,391</u>	<u>1,641</u>
Sales and services			
ABC Revenue		691	
Cemetery lots sales		3,390	
Recreation department fees		42,177	
Total sales and services	<u>35,500</u>	<u>46,258</u>	<u>10,758</u>
Investment earnings	<u>1,000</u>	<u>1,844</u>	<u>844</u>
Miscellaneous			
Fire department donations		24,229	
Timber receipts		191,205	
Other		34,319	
Total miscellaneous	<u>2,500</u>	<u>249,753</u>	<u>247,253</u>
Total revenues	<u>1,315,081</u>	<u>1,651,173</u>	<u>336,092</u>

**TOWN OF BISCOE, NORTH CAROLINA
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Expenditures			
General government			
Administration			
Salaries and employee benefits		\$ 151,900	
Other operating expenditures		160,157	
Total administration	<u>\$ 343,486</u>	<u>312,057</u>	<u>\$ 31,429</u>
Legal and professional services			
Other operating expenditures	<u>41,000</u>	<u>29,479</u>	<u>11,521</u>
Public buildings and grounds			
Other operating expenditures		61,824	
Capital outlay		26,653	
Total public buildings and grounds	<u>150,307</u>	<u>88,477</u>	<u>61,830</u>
Total general government	<u>534,793</u>	<u>430,013</u>	<u>104,780</u>
Public Safety			
Police			
Salaries and employee benefits		457,492	
Other operating expenditures		87,029	
Capital outlay		48,017	
Total police	<u>617,401</u>	<u>592,538</u>	<u>24,863</u>
Fire			
Salaries and employee benefits		8,222	
Other operating expenditures		79,227	
Capital outlay		195,000	
Total fire	<u>275,879</u>	<u>282,449</u>	<u>(6,570)</u>
Total public safety	<u>893,280</u>	<u>874,987</u>	<u>18,293</u>
Transportation			
Streets			
Other operating expenditures	<u>179,150</u>	<u>186,755</u>	<u>(7,605)</u>
Streets - Powell Bill			
Salaries and employee benefits		9,748	
Other operating expenditures		13,473	
Capital outlay		3,877	
Total streets - Powell Bill	<u>118,827</u>	<u>27,098</u>	<u>91,729</u>
Total transportation	<u>297,977</u>	<u>213,853</u>	<u>84,124</u>

TOWN OF BISCOE, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE

BUDGET AND ACTUAL

For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Cultural and Recreational			
Recreation			
Salaries and employee benefits		\$ 40,741	
Other operating expenditures		63,511	
Capital outlay		10,257	
Total recreation	<u>\$ 162,843</u>	<u>114,509</u>	<u>\$ 48,334</u>
Total cultural and recreational	<u>162,843</u>	<u>114,509</u>	<u>48,334</u>
Total expenditures	<u>1,888,893</u>	<u>1,633,362</u>	<u>255,531</u>
Revenues over (under) expenditures	(573,812)	17,811	591,623
Other financing sources:			
Transfer from capital reserve fund	89,300	90,680	1,380
Sale of capital assets	<u>269,864</u>	<u>192,620</u>	<u>(77,244)</u>
Total other financial sources	<u>359,164</u>	<u>283,300</u>	<u>(75,864)</u>
Revenues over (under) expenditures and other financing sources	(214,648)	301,111	515,759
Fund balance appropriated	<u>214,648</u>	<u>-</u>	<u>(214,648)</u>
Net change in fund balance	<u>\$ -</u>	<u>301,111</u>	<u>\$ 301,111</u>
Fund balance, beginning of year		<u>1,056,778</u>	
Fund balance, end of year		<u>\$ 1,357,889</u>	

TOWN OF BISCOE, NORTH CAROLINA
CAPITAL RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Year Ended June 30, 2015

	<u>Budget</u>	<u>Actual</u>	Variance favorable (unfavorable)
Revenues:			
Investment earnings	\$ 500	\$ 304	\$ (196)
Other financing uses:			
Transfer to general fund	(90,680)	(90,680)	-
Transfer to OSFM grant fund	<u>(25,252)</u>	<u>(25,251)</u>	<u>1</u>
Total other financing uses	<u>(115,932)</u>	<u>(115,931)</u>	<u>1</u>
Revenues under other financing uses	(115,432)	(115,627)	(195)
Fund balance appropriated	<u>115,432</u>	<u>-</u>	<u>(115,432)</u>
Net change in fund balance	<u>\$ -</u>	(115,627)	<u>\$ (115,627)</u>
Fund balance, beginning of year		<u>909,615</u>	
Fund balance, end of year		<u>\$ 793,988</u>	

**TOWN OF BISCOE, NORTH CAROLINA
SPECIAL REVENUE FUND (CDBG GRANT)
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
From Inception and for the Year Ended June 30, 2015**

	Project Authorization	Actual		Total to date	Variance favorable (unfavorable)
		Prior years	Current year		
Revenues					
Restricted intergovernmental:					
CDBG grant proceeds	\$ 750,000	\$ -	\$ 750,000	\$ 750,000	\$ -
Expenditures					
Current:					
Economic and physical development:					
Building improvements	750,000	-	750,000	750,000	-
Revenues over expenditures	\$ -	\$ -	-	\$ -	\$ -
Fund balance, beginning of year			-		
Fund balance, end of year			\$ -		

**TOWN OF BISCOE, NORTH CAROLINA
SPECIAL REVENUE FUND (OSFM GRANTS)
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND DEFICIT -
BUDGET AND ACTUAL
From Inception and for the Year Ended June 30, 2015**

	Project Authorization	Actual		Total to date	Variance favorable (unfavorable)
		Prior years	Current year		
Revenues					
Restricted intergovernmental:					
OSFM grant proceeds - 2013-2014	\$ 30,000	\$ 29,979	\$ -	\$ 29,979	\$ (21)
OSFM grant proceeds - 2014-2015	28,975	-	28,278	28,278	(697)
OSFM grant proceeds - 2015-2016	25,251	-	-	-	(25,251)
Total revenues	<u>84,226</u>	<u>29,979</u>	<u>28,278</u>	<u>58,257</u>	<u>(25,969)</u>
Expenditures					
Current:					
Public safety:					
OSFM expenditures 2013-2014	60,004	60,260	-	60,260	(256)
OSFM expenditures 2014-2015	57,950	-	56,556	56,556	1,394
OSFM expenditures 2015-2016	50,502	-	22,430	22,430	28,072
Total expenditures	<u>168,456</u>	<u>60,260</u>	<u>78,986</u>	<u>139,246</u>	<u>29,210</u>
Revenues over (under) expenditures	<u>(84,230)</u>	<u>(30,281)</u>	<u>(50,708)</u>	<u>(80,989)</u>	<u>3,241</u>
Other financing sources					
Transfer from capital reserve fund	<u>84,230</u>	<u>-</u>	<u>25,251</u>	<u>25,251</u>	<u>(58,979)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ (30,281)</u>	<u>(25,457)</u>	<u>\$ (55,738)</u>	<u>\$ (55,738)</u>
Fund deficit, beginning of year			<u>(30,281)</u>		
Fund deficit, end of year			<u>\$ (55,738)</u>		

**TOWN OF BISCOE, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
Revenues			
Operating revenues:			
Charges for services		\$ 959,795	
Water and sewer taps and connection fees		8,005	
Other		13,002	
Total operating revenues	<u>\$ 997,464</u>	<u>980,802</u>	<u>\$ (16,662)</u>
Nonoperating revenues:			
Tax refunds		8,621	
Miscellaneous		7,658	
Total nonoperating revenues	<u>8,850</u>	<u>16,279</u>	<u>7,429</u>
Total revenues	<u>1,006,314</u>	<u>997,081</u>	<u>(9,233)</u>
Expenditures			
Operating expenditures:			
Salaries and employee benefits		271,856	
Other operating expenditures		346,482	
Water purchases for resale		281,811	
Capital outlay		151,802	
Total expenditures	<u>1,077,800</u>	<u>1,051,951</u>	<u>25,849</u>
Revenues under expenditures	<u>(71,486)</u>	<u>(54,870)</u>	<u>(35,082)</u>
Other financing uses			
Transfers to enterprise capital projects fund	<u>(28,050)</u>	<u>(28,050)</u>	<u>-</u>
Revenues under expenditures and other financing uses	<u>(99,536)</u>	<u>(82,920)</u>	<u>16,616</u>
Fund balance appropriated	99,536	-	(99,536)
Revenues and fund balance appropriated under expenditures and other financing uses	<u>\$ -</u>	<u>\$ (82,920)</u>	<u>\$ (82,920)</u>

**TOWN OF BISCOE, NORTH CAROLINA
WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES
BUDGET AND ACTUAL (NON-GAAP)
For the Year Ended June 30, 2015**

Reconciliation from budgetary basis
(modified accrual) to full accrual:

Revenues and fund balance appropriated under expenditures and other financing uses	\$ (82,920)
Reconciling items:	
Depreciation	(179,786)
Capital outlay	151,802
Decrease in accrued vacation pay	3,581
Deferred outflows of resources for contributions made to pension plan in current fiscal year	12,449
Pension expense	(659)
Capital contributions	532,800
Increase in inventory	3,758
Loss on disposal	(35,422)
Transfers from water and sewer fund to enterprise capital project fund	<u>28,050</u>
Total	<u>516,573</u>
Change in net position	<u><u>\$ 433,653</u></u>

**TOWN OF BISCOE, NORTH CAROLINA
ENTERPRISE CAPITAL PROJECT FUND (WASTE WATER TREATMENT PLANT IMPROVEMENT)
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
From Inception and for the Year Ended June 30, 2015**

	Project Authorization	Actual		Total to date	Variance favorable (unfavorable)
		Prior years	Current year		
Revenues					
Restricted intergovernmental:					
CWMTF grant proceeds	\$ 584,000	\$ 1,200	\$ 532,800	\$ 534,000	\$ (50,000)
Expenditures					
Construction and unit cost price	1,621,000	74,217	981,401	1,055,618	565,382
Engineering	289,000	-	84,737	84,737	204,263
Loan closing costs	28,050	-	28,050	28,050	-
Contingency	81,050	-	-	-	81,050
Total expenditures	2,019,100	74,217	1,094,188	1,168,405	850,695
Revenues over (under) expenditures	(1,435,100)	(73,017)	(561,388)	(634,405)	800,695
Other financing sources					
Loan proceeds	1,402,500	-	655,257	655,257	(747,243)
Transfer from water and sewer fund	32,600	-	28,050	28,050	(4,550)
Total other financing sources	1,435,100	-	683,307	683,307	(751,793)
Revenues and other financing sources over (under) expenditures	\$ -	\$ (73,017)	\$ 121,919	\$ 48,902	\$ 48,902

SUPPLEMENTAL FINANCIAL DATA

TOWN OF BISCOE, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2015

<u>Fiscal year</u>	Uncollected balance <u>July 1, 2014</u>	<u>Additions</u>	Collections and credits	Uncollected balance <u>June 30, 2015</u>
2014-2015	\$ -	\$ 663,812	\$ 647,503	\$ 16,309
2013-2014	24,176	-	16,564	7,612
2012-2013	10,999	-	4,191	6,808
2011-2012	5,828	-	1,140	4,688
2010-2011	4,633	-	750	3,883
2009-2010	3,738	-	292	3,446
2008-2009	3,572	-	-	3,572
2007-2008	3,643	-	-	3,643
2006-2007	3,156	-	-	3,156
2005-2006	9,874	-	7,832	2,042
2004-2005	<u>5,126</u>	<u>-</u>	<u>5,126</u>	<u>-</u>
	<u>\$ 74,745</u>	<u>\$ 663,812</u>	<u>\$ 683,398</u>	55,159
Less allowance for uncollected taxes receivable General fund				<u>(33,000)</u>
Ad valorem taxes receivable (net)				<u>\$ 22,159</u>
 <u>Reconciliation with revenues:</u>				
Taxes - ad valorem - General Fund				\$ 674,478
Reconciling items:				
Interest collected				(4,830)
Other adjustments				11,288
Taxes written off				<u>2,462</u>
Subtotal				<u>8,921</u>
Total collections and credits				<u>\$ 683,398</u>

**TOWN OF BISCOE, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY
June 30, 2015**

	Town-wide		Total levy		
	Property valuation	Rate	Total Levy	Property excluding registered motor vehicles	Registered motor vehicles
Original levy:					
Property taxed at current year's rate	\$128,513,255	\$.56	\$ 721,509	\$ 659,317	\$ 62,192
Discoveries:					
Current year taxes	120,426	.56	1,043	675	368
Abatements	<u>(10,489,330)</u>		<u>(58,740)</u>	<u>(58,740)</u>	<u>-</u>
TOTAL PROPERTY VALUATION	<u>\$118,144,351</u>				
Net levy			663,812	601,252	62,560
Uncollected taxes at June 30, 2015			<u>(16,309)</u>	<u>(16,309)</u>	<u>-</u>
CURRENT YEAR'S TAXES COLLECTED			<u>\$ 647,503</u>	<u>\$ 584,943</u>	<u>\$ 62,560</u>
CURRENT LEVY COLLECTION PERCENTAGE			<u>97.54%</u>	<u>97.29%</u>	<u>100%</u>

**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
Town Commissioners
Biscoe, 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 basic financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Biscoe, North Carolina ("Town"), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprises the Town's basic financial statements, and have issued our report thereon dated November 17, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town'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's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control over financial reporting was for the 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control that we consider to be a material weakness.

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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2015-1 to be a material weakness. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town'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. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and is described in the accompany schedule of findings and questioned costs as item 2015-1.

Town's Response to Findings

The Town's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town'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 Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dixon Hughes Goodman LLP

High Point, North Carolina
November 17, 2015

Report on Compliance for Each Major Federal 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
Town Commissioners
Biscoe, North Carolina

Report on Compliance for Each Major Federal Program

We have audited the Town of Biscoe, North Carolina ("Town"), compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* and 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's major federal programs for the year ended June 30, 2015. The Town's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town's major federal 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 OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 federal program occurred. An audit includes examining, on a test basis, evidence about the Town'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 federal program. However, our audit does not provide a legal determination of the Town's compliance.

Opinion on Each Major Federal Program

In our opinion, the Town 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 federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of the Town 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's internal control over compliance with the types of requirements that could have a direct and material effect on a major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal 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 federal 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 federal 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 federal 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.

Dixon Hughes Goodman LLP

High Point, North Carolina
November 17, 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
Town Commissioners
Biscoe, North Carolina

Report on Compliance for Each Major State Program

We have audited the Town of Biscoe ("Town"), 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's major state programs for the year ended June 30, 2015. The Town's major state programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of the Town'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'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's compliance.

Opinion on Each Major State Program

In our opinion, the Town 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 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'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.

Dixon Hughes Goodman LLP

High Point, North Carolina
November 17, 2015

**TOWN OF BISCOE, NORTH CAROLINA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Fiscal Year Ended June 30, 2015**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? *Yes*
- Significant deficiency(ies) identified that are not considered to be material weaknesses *None*

Noncompliance material to financial statements noted *No*

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses *None reported*

Type of auditors' report issued on compliance for major federal programs *Unmodified*

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133 *No*

Identification of major federal programs:

<i>CFDA Numbers</i>	<i>Names of Federal Program or Cluster</i>
14.228	Community Development Block Grant
66.458	Capitalization Grant for Clean Water State Revolving Funds

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

Auditee qualified as low-risk auditee? *No*

**TOWN OF BISCOE, NORTH CAROLINA
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS
 For the Fiscal Year Ended June 30, 2015**

Section I - Summary of Auditors' Results (Continued)

State Awards

Internal control over major state programs:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses *None reported*

Type of auditors' 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 *No*

Identification of major state programs:

Program Name

North Carolina Department of Environment and Natural Resources:
 DENR – 4: Clean Water Management Trust Fund

Section II - Financial Statement Findings

Finding 2015-1: Material Weakness

Criteria: Adequate resources must be available for fund operations.

Condition: The OSFM Grants Fund had a deficit in fund balance of \$55,738.

Effect: The OSFM Grants Fund did not have sufficient assets to pay its liabilities at June 30, 2015.

Cause: This deficit is the result of timing related to certificate of deposit maturities that will be used to fund the expenditures. Upon maturity and close out of the project, the Town will transfer the funds as approved in the project ordinance.

Recommendation: We recommend that management transfer funds from the General Fund to the OSFM Grants Fund to cover the deficit.

Views of responsible officials and planned corrective action: The Board agrees with this finding and will transfer funds from the General Fund to the OSFM grants fund to cover the deficit.

**TOWN OF BISCOE, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2015**

Section III – Federal Award Findings and Questioned Costs

No findings and questioned costs related to the audit of federal awards aggregating \$10,000 or more were noted.

Section IV - State Award Findings and Questioned Costs

No findings and questioned costs related to the audit of state awards aggregating \$10,000 or more were noted.

**TOWN OF BISCOE, NORTH CAROLINA
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2015**

Finding: 2015-1

Name of contact person: Brooks Lockhart, Town Manager

Corrective Action: The Town will transfer \$55,738 from the General Fund to the OSFM grants fund to cover the deficit.

Proposed Completion Date: June 30, 2016



**Report to the Board of Commissioners of
Town of Biscoe, North Carolina**

June 30, 2015

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Contacts

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Partner

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W. Lance Craig CPA

Manager

Dixon Hughes Goodman LLP
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910-724-2025
lance.craig@dhgllp.com

Communications with Those Charged with Governance

November 17, 2015

To the Board of Commissioners Town of Biscoe, North Carolina

We have audited the financial statements of Town of Biscoe, North Carolina (the “Town”) for the year ended June 30, 2015, and have issued our report thereon dated November 17, 2015. Professional standards require that we provide you with information about our responsibilities in accordance with auditing standards generally accepted in the United States of America, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated June 1, 2015. Professional standards also require that we communicate to you the following information related to our audit.

Our Responsibility under Auditing Standards Generally Accepted in the United States of America and *Government Auditing Standards*

As stated in our engagement letter dated June 1, 2015, our responsibility, as described by professional standards, is to express opinions on each opinion unit about whether the financial statements prepared by us with management’s oversight are fairly presented, in all material respects, in conformity with accounting principles generally accepted in the United States of America.

In planning and performing our audit, we considered the Town’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.

As part of obtaining reasonable assurance about whether the Town’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, non-compliance 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.

We have issued a written report on our consideration of internal controls and compliance in accordance with *Government Auditing Standards*, in which we identified no material weaknesses or significant deficiencies in internal controls over financial reporting.

Our Responsibility under Office of Management and Budget (“OMB”) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*

As stated in our engagement letter dated June 1, 2015, our responsibility, under Federal regulations, is to test controls and compliance with the requirements of laws, regulations, contracts and grant agreements that have a direct and material effect on the administration of the

Town's major Federal programs. We have issued a written report on the Town's compliance, in which we identified no material weaknesses or significant deficiencies in internal controls over compliance with the major Federal programs.

We are also responsible for communicating significant findings and known, or likely, questioned costs in excess of \$10,000 as defined in OMB Circular A-133. We noted no questioned costs that exceeded \$10,000.

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the Town are described in Note I to the financial statements. During the year ended June 30, 2015, the Town implemented GASB Statement No. 68. GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an Amendment of GASB Statement No. 27* which addresses accounting and financial reporting for pensions that are provided to the employees of state and local government employers through pension plans that are administered through trusts. GASB Statement No. 68 provides standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. No matters have come to our attention that would require us, under professional standards, to inform you about (1) the methods used to account for significant unusual transactions and (2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

Accounting estimates are an integral part of the financial statements prepared by management, and are based on management's knowledge and experience about past and current events, and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management's estimate of the accumulated depreciation is based on estimated useful lives of depreciable assets. We evaluated the key factors and assumptions used to calculate depreciation in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's determination of the Town's proportionate share of net pension asset related to the Local Government Employees' Retirement System plan. We evaluated the key factors and assumptions used to develop the estimated proportionate share of net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

The disclosure of the Local Government Employees' Retirement plan in Note VII to the financial statements describes the proportionate share of the Town's net pension asset and details of the plan.

The disclosure of the implementation of a new accounting principle in Note XV to the financial statements describes the effect of the adoption on the statement of net position in the previous period.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter included in Appendix A.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Item 8 in the attached management representation letter summarizes the current year effect of passed adjustments. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Consultations with Other Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Company's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Significant Matters, Findings, or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Company's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the Board of Commissioners and management of the Town of Biscoe, North Carolina, and is not intended to be, and should not be, used by anyone other than these specified parties.

Sincerely,

Dixon Hughes Goodman LLP

High Point, North Carolina

Appendix A

Management Representation Letter

TOWN OF BISCOE

110 West Main Street P.O. Box 1228 Biscoe, N.C. 27209 Phone (910) 428-4112 FAX (910) 428-3975 www.townofbiscoe.com

November 17, 2015

Dixon Hughes Goodman LLP
1829 Eastchester Drive
High Point, North Carolina 27265

This representation letter is provided in connection with your audit of the financial statements of the Town of Biscoe (the "Town"), which comprise the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information as of June 30, 2015 and the respective changes in financial position and, where applicable, cash flows for the year then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in the light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm that, to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves as of the date of this letter:

Financial Statements

1. We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated June 1, 2015, for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
2. The financial statements referred to above include all properly classified funds and other financial information of the primary government and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
3. We acknowledge our responsibility for 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.
4. We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
5. The following have been properly accounted for and disclosed in the financial statements:
 - a. Related party relationships and transactions, including revenues, expenditures/expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties
 - b. Guarantees, whether written or oral, under which the school district is contingently liable
 - c. Other liabilities or gain or loss contingencies
6. Significant estimates that may be subject to a material change in the near term have been properly disclosed in the financial statements. We understand that "near term" means the period within one year of the date of the financial statements. In addition, we have no knowledge of concentrations existing at the

date of the financial statements that make the Town vulnerable to the risk of severe impact that have not been properly disclosed in the financial statements.

7. Significant assumptions we used in making accounting estimates, including estimates of fair value, are reasonable.
8. We are in agreement with the adjusting journal entries you have recommended and they have been posted to the Town's accounts. There are no uncorrected misstatements or omitted disclosures in the financial statements other than the:
 - a. Understatement of water and sewer receivables in the Water and Sewer Fund of \$134,578 for unbilled receivables and the prior year effect on beginning net position of \$138,226, resulting in an overstatement of current year revenue of \$3,648 in the Water and Sewer Fund.
 - b. Understatement of capital assets in the amount of \$17,686 at June 30, 2014 for Governmental Activities on the Government-wide Statement of Net Position.
 - c. Overstatement of water and sewer expenses and beginning net position on the Water and Sewer Fund of \$58,113 resulting from overbilling to a certain customer.The amounts aggregated by you during the current engagement are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
9. The effects of all known actual or possible litigation, claims, and assessments have been accounted for and disclosed in accordance with U.S. GAAP.

Information Provided

10. We have provided you with:
 - a. Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and all audit or relevant monitoring reports, if any, received from funding sources.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. Minutes of the meetings of the Town or summaries of actions of recent meetings for which minutes have not yet been prepared.
11. All transactions have been recorded in the accounting records and are reflected in the financial statements or the schedule of expenditures of federal and state awards.
12. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
13. We have no knowledge of any fraud or suspected fraud that affects the Town and involves:
 - a. Management,
 - b. Employees who have significant roles in internal control,
 - c. Others where the fraud could have a material effect on the financial statements.
14. We have no knowledge of any allegations of fraud or suspected fraud affecting the Town's financial statements communicated by employees, former employees, regulators, or others.
15. There have been no communications from regulatory agencies concerning noncompliance with or deficiencies in financial reporting practices.

16. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing the financial statements.
17. We have disclosed to you the identity of the Town's related parties and all the related party relationships and transactions of which we are aware.
18. The Town has no plans or intentions that may materially affect the carrying value or classification of assets, liabilities or equity.
19. The Town has complied with all aspects of contractual agreements that would have a material effect on the financial statements in the event of noncompliance.
20. We have disclosed to you all known actual or possible litigation, claims, and assessments whose effects should be considered when preparing the financial statements. In addition, we have not contact our lawyers about such matters since the effective date of their letter to you.
21. The Town has satisfactory title to all owned assets and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
22. In regards to the preparation of the financial statements and related notes and schedule of expenditures of federal awards and auditee section of the Data Collection Form, as required by OMB Circular A-133, we have:
 - a. Assumed all management responsibilities.
 - b. Overseen the service, by designating an individual, within senior management, who possess suitable skill, knowledge, or experience.
 - c. Evaluated the adequacy and results of the services performed
 - d. Accepted responsibility for the results of the services
 - e. Evaluated and maintained internal controls, including monitoring ongoing activities.

Government-specific

23. We have made available to you all financial records and related data and all audit or relevant monitoring reports, if any, received from funding sources.
24. We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
25. We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts; and we have identified and disclosed to you all laws, regulations and provisions of contracts and grant agreements that we believe have a direct and material effect on the determination of financial statement amounts or other financial data significant to the audit objectives, including legal and contractual provisions for reporting specific activities in separate funds.
26. There are no –
 - a) Violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving or amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting noncompliance.

- b) Unasserted claims or assessments that our attorney has advised us are probable of assertions, other than those already disclosed to you, and we have not contacted our lawyers about such matters since the effective date of their letters to you.
27. We have followed all applicable laws and regulations in adopting, approving, and amending budgets.
28. The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations, if any.
29. The financial statements properly classify all funds and activities.
30. All funds that meet the quantitative criteria in GASB Statement Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
31. Components of net position (net investment in capital assets; restricted; and unrestricted) and equity amounts are properly classified and, if applicable, approved.
32. Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
33. Provisions for uncollectible receivables have been properly identified and recorded.
34. Expenses have been appropriately classified in or allocated to functions and programs in the statement of activities, and allocations have been made on a reasonable basis.
35. Revenues are appropriately classified in the statement of activities within program revenues, general revenues, contributions to term or permanent endowments, or contributions to permanent fund principal.
36. Interfund, internal, and intra-entity activity and balances have been appropriately classified and reported.
37. Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
38. Capital assets, including infrastructure and intangible assets, are properly capitalized, reported, and, if applicable, depreciated.
39. We have appropriately disclosed the Town's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available and have determined that net assets were properly recognized under the policy.
40. With respect to the implementation of GASB Statement No. 68:
 - a. We have reported all eligible employees to the Local Government Employees' Retirement Plan ("LGERS") through the Online Retirement Benefits Integrated Technology ("ORBIT") System.
 - b. The census data for all eligible employees reported to LGERS via ORBIT is complete and accurate as of December 31, 2013 (the measurement date for the net pension asset reported as of June 30, 2015).
 - c. We are responsible for the Town's compliance with requirements as established in the Retirement System's Handbook.
 - d. We are in agreement with the Town's proportionate share of the cumulative adjustment to beginning fund balance/net position, deferred outflows of resources, net pension liability, deferred inflows of

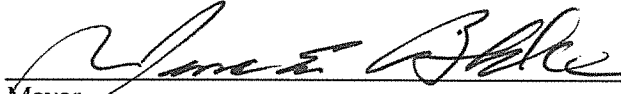
resources, pension expense as determined by the “GASB 68 Implementation Year Journal Entry Template” posted on the North Carolina Department of State Treasurer’s website.

41. We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.
42. With respect to the Individual Fund Statements and Schedules and the Schedule of Expenditures of Federal and State Awards (the “Supplementary Information”):
 - a. We acknowledge our responsibility for presenting the Supplementary Information in accordance with U.S. GAAP, and we believe the Supplementary Information, including its form and content, is fairly presented in accordance with U.S. GAAP. The methods of measurement and presentation of the Supplementary Information have not changed from those used in the prior period, and we have disclosed to you any significant assumptions or interpretations underlying the measurement and presentation of the Supplementary Information.
 - b. If the Supplementary Information is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the supplementary information no later than the date we issue the supplementary information and the auditor’s report thereon.
43. With respect to federal and state award programs:
 - a. We are responsible for understanding and complying with and have complied with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and compliance requirements described in the Audit Manual for Governmental Auditors in North Carolina, including requirements relating to preparation of the schedule of expenditures of federal awards.
 - b. We acknowledge our responsibility for presenting the Schedule of Expenditures of Federal and State Awards (“SEFA”) in accordance with the requirements of OMB Circular A-133 §310.b, and we believe the SEFA, including its form and content, is fairly presented in accordance with OMB Circular A-133 §310.b. The methods of measurement or presentation of the SEFA have not changed from those used in the prior period and we have disclosed to you any significant assumptions and interpretations underlying the measurement or presentation of the SEFA.
 - c. If the SEFA is not presented with the audited financial statements, we will make the audited financial statements readily available to the intended users of the SEFA no later than the date we issue the SEFA and the auditor’s report thereon.
 - d. We have identified and disclosed to you all of our government programs and related activities subject to OMB Circular A-133 and the *State Single Audit Implementation Act* included in the SEFA made during the audit period for all awards provided by federal agencies in the form of grants, federal cost-reimbursement contracts, loans, loan guarantees, property (including donated surplus property), cooperative agreements, interest subsidies, insurance, food commodities, direct appropriations, and other direct assistance.
 - e. We are responsible for understanding and complying with, and have complied with, the requirements of laws, regulations, and the provisions of contracts and grant agreements related to each of our federal programs and have identified and disclosed to you the requirements of laws, regulations, and the provisions of contracts and grant agreements that are considered to have a direct and material effect on each major program.

- f. We are responsible for establishing and maintaining, and have established and maintained, effective internal control over compliance requirements applicable to federal and state programs that provides reasonable assurance that we are managing our federal and state awards in compliance with laws, regulations, and the provisions of contracts and grant agreements that could have a material effect on our federal programs. We believe the internal control system is adequate and is functioning as intended.
- g. We have made available to you all contracts and grant agreements (including amendments, if any) and any other correspondence with federal and state agencies or pass-through entities relevant to federal and state programs and related activities.
- h. We have received no requests from a federal or state agency to audit one or more specific programs as a major program.
- i. We have complied with the direct and material compliance requirements (except for noncompliance disclosed to you, if any), including when applicable, those set forth in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, relating to federal and state awards and have identified and disclosed to you all amounts questioned and all known noncompliance with the requirements of federal and state awards.
- j. We have disclosed any communications from grantors and pass-through entities concerning possible noncompliance with the direct and material compliance requirements, including communications received from the end of the period covered by the compliance audit to the date of the auditor's report.
- k. We have disclosed to you the findings received and related corrective actions taken for previous audits, attestation engagements, and internal or external monitoring that directly relate to the objectives of the compliance audit, including findings received and corrective actions taken from the end of the period covered by the compliance audit to the date of the auditor's report.
- l. Amounts claimed or used for matching were determined in accordance with relevant guidelines in *OMB Circular A-87, Cost Principles for State, Local, and Tribal Governments*, and *OMB's Uniform Administrative Requirements for Grants and Cooperative Agreements to State and Local Governments*.
- m. We have disclosed to you our interpretation of compliance requirements that may have varying interpretations.
- n. We have made available to you all documentation related to compliance with the direct material compliance requirements, including information related to federal and state program financial reports and claims for advances and reimbursements.
- o. We have disclosed to you the nature of any subsequent events that provide additional evidence about conditions that existed at the end of the reporting period affecting noncompliance during the reporting period.
- p. There are no such known instances of noncompliance with direct and material compliance requirements that occurred subsequent to the period covered by the auditor's report.
- q. No changes have been made in internal control over compliance or other factors that might significantly affect internal control, including any corrective action we have taken regarding significant deficiencies in internal control over compliance (including material weaknesses in internal control over compliance), have occurred subsequent to the date as of which compliance was audited.
- r. Federal and state program financial reports and claims for advances and reimbursements are supported by the books and records from which the financial statements have been prepared.
- s. The copies of federal and state program financial reports provided you are true copies of the reports submitted, or electronically transmitted, to the respective federal or state agency or pass-through entity, as applicable.

- t. We have charged costs to federal and state awards in accordance with applicable cost principles.
- u. We are responsible for and have accurately prepared the summary schedule of prior audit findings to include all findings required to be included by OMB Circular A-133 and we have provided you with all information on the status of the follow-up on prior audit findings by federal and state awarding agencies and pass-through entities, including all management decisions.
- v. We are responsible for and have accurately prepared the auditee section of the Data Collection Form as required by OMB Circular A-133.
- w. We are responsible for preparing and implementing a corrective action plan for each audit finding.

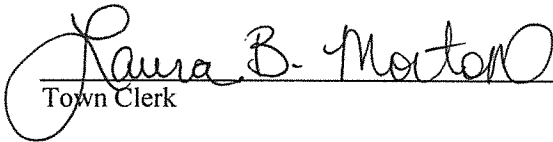
We have evaluated subsequent events through the date of this letter, which is the date the financial statements were available to be issued. No events have occurred subsequent to the balance sheet date and through the date of this letter that would require adjustment to or disclosure in the aforementioned financial statements.



Mayor



Town Manager



Town Clerk