

TOWN OF CARTHAGE, NORTH CAROLINA

FINANCIAL STATEMENTS

For the fiscal year ended June 30, 2016

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FINANCIAL SECTION

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor
and Members of the Town Council
Carthage, 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 Carthage, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 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 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.

Opinion

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 of Carthage, North Carolina as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, on pages 3 through 9, and Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions, on pages 42 and 43, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the Law Enforcement Officers' Special Separation Allowance Schedules of Funding Progress and Employers' Contributions that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economical, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Carthage's basic financial statements. The individual fund statements, budget and actual schedules, supplemental ad valorem tax schedules as well as the accompanying Schedule of Expenditures of Federal and State Awards as required by the U.S. Office and Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations or Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the State Single Audit Implementation Act are presented for the purpose of additional analysis and are not a required part of the basic financial statements.

The individual fund financial statements, budget and actual schedules, supplemental ad valorem tax schedules, and the Schedule of Expenditures of Federal and State Awards are the responsibility of management and were derived from, and relates 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 financial statements, budget and actual schedules, supplemental ad valorem tax schedules, and the Schedule of Expenditures of Federal and State Awards are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated December 23, 2016 on our consideration of Town of Carthage's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 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 Town of Carthage's internal control over financial reporting and compliance.



Rockingham, NC
December 23, 2016

Management's Discussion and Analysis

As management of the Town of Carthage, we offer readers of the Town of Carthage's financial statements this narrative overview and analysis of the financial activities of the Town of Carthage for the fiscal year ended June 30, 2016. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

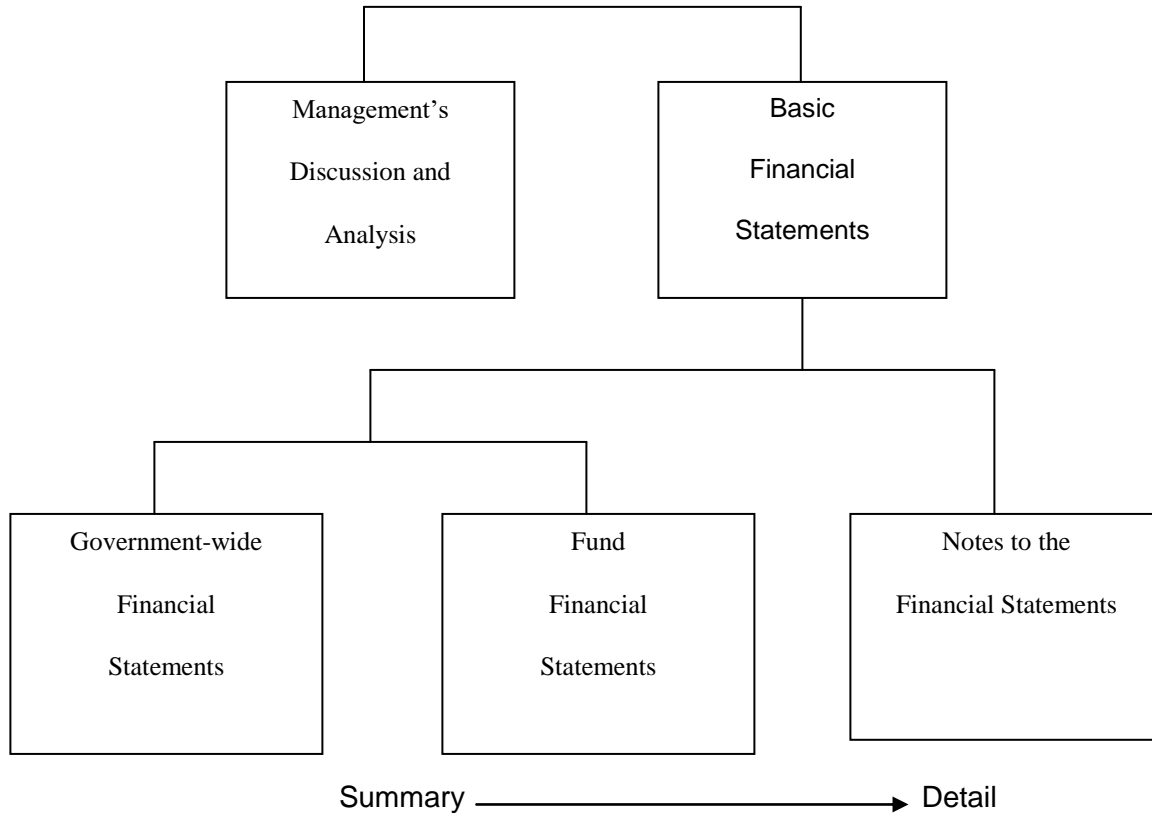
Financial Highlights

- The assets and deferred outflows of resources of the Town of Carthage exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$8,396,597 (*net position*).
- The government's total net position decreased by \$347,156, due to revenues exceeding expenditures.
- As of the close of the current fiscal year, the Town of Carthage's governmental funds reported combined ending fund balances of \$1,468,791 an increase of \$112,698. Approximately 71.0 percent of this total amount, or \$1,028,002, is available for spending at the government's discretion (*unassigned fund balance*).
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,028,002, or 42.0 percent of total general fund expenditures for the fiscal year.
- The Town of Carthage's total debt decreased by \$146,959 (9.5%) during the current fiscal year.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town of Carthage'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. 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 Carthage.

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 9) are **Fund Financial Statements**. These statements focus on the activities of the individual parts of the Town's government. These statements provide more detail than the government-wide statements. There are three parts to the Fund Financial Statements: 1) the governmental funds statements; 2) the budgetary comparison statements; and 3) the proprietary fund statements.

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

Following the notes is the required supplemental information. This section contains funding information about the Town's pension plans.

Government-wide Financial Statements

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

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

The government-wide statements are divided into three categories: 1) governmental activities; 2) business-type activities; and 3) component units. The governmental activities include most of the Town's basic services such as general government, public safety, transportation, sanitation, economic development and culture and recreation. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. This includes the water and sewer services offered by the Town of Carthage.

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

Fund Financial Statements

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

Governmental Funds – Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in and out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting* 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 of Carthage adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the board; 2) the final budget as amended by the board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities is shown at the end of the budgetary statement.

Proprietary Funds – Town of Carthage has one proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Carthage uses two enterprise funds to account for its water and its sewer activity. This fund is

the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements are on pages 19-42 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning the Town of Carthage's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found beginning on page 42 of this report.

The Town of Carthage's Net Position						
	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Current and other assets	\$ 1,538,071	\$ 1,491,870	\$ 838,119	\$ 398,848	\$ 2,376,190	\$ 1,890,718
Capital assets	1,849,917	2,035,804	8,643,796	7,331,134	10,493,713	9,366,938
Deferred outflows of resources	60,754	83,290	5,841	17,060	66,595	100,350
Total assets and deferred outflows of resources	3,448,742	3,610,964	9,487,756	7,747,042	12,936,498	11,358,006
Long-term liabilities outstanding	767,780	845,987	2,866,324	1,167,185	3,634,104	2,013,172
Other liabilities	152,399	192,731	604,375	125,478	756,774	318,209
Deferred inflows of resources	137,101	234,784	11,922	48,088	149,023	282,872
Total liabilities and deferred inflows of resources	1,057,280	1,273,502	3,482,621	1,340,751	4,539,901	2,614,253
Net position						
Net investment in capital assets	1,051,796	1,091,876	5,733,727	6,117,872	6,785,523	7,209,748
Restricted	262,800	340,388	135,131	43,628	397,931	384,016
Unrestricted	1,076,866	905,198	136,277	244,791	1,213,143	1,149,989
Total net position	\$ 2,391,462	\$ 2,337,462	\$ 6,005,135	\$ 6,406,291	\$ 8,396,597	\$ 8,743,753

As noted earlier, net position may serve over time as one useful indicator of a government's financial condition. The assets and deferred outflows of the Town of Carthage exceeded liabilities and deferred inflows by \$8,396,597 as of June 30, 2016. The Town's net position decreased by \$347,156 for the fiscal year ended June 30, 2016. The largest portion 80.8% reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Carthage uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Carthage's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. The remaining balance of \$1,213,143 is unrestricted and \$397,931 is restricted.

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

Continued diligence in the collection of property taxes by maintaining a tax collection percentage of 99.75%, which is comparable to the state wide average of 97.00.

Continued low cost of debt due to the Town's high bond rating.

The general fund is the chief operating fund of the Town of Carthage. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$1,028,002 while total fund balance reached \$1,468,791. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unassigned fund balance represents 42.0 percent of total General Fund expenditures, while total fund balance represents 60.0 percent of that same amount.

The following is the changes in Net Position:

TheTown of Carthage's Changes in Net Position

	Governmental Activities		Business-type Activities		Totals	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services	\$ 157,897	\$ 152,156	\$ 1,289,098	\$ 1,220,440	\$ 1,446,995	\$ 1,372,596
Operating grants and contributions	226,323	261,727	-	-	226,323	261,727
Capital grants and contributions	-	-	-	440,621	-	440,621
General revenues:						
Property taxes	1,339,250	1,232,427	-	-	1,339,250	1,232,427
Other taxes	557,414	532,815	-	-	557,414	532,815
Other	331,906	394,451	111	392	332,017	394,843
Total revenues	<u>2,612,790</u>	<u>2,573,576</u>	<u>1,289,209</u>	<u>1,661,453</u>	<u>3,901,999</u>	<u>4,235,029</u>
Expenses						
General governments	660,607	776,593	-	-	660,607	776,593
Public Safety	1,209,673	1,185,810	-	-	1,209,673	1,185,810
Streets and sanitation	547,520	462,818	-	-	547,520	462,818
Culture and recreation	19,489	16,059	-	-	19,489	16,059
Interest on long-term debt	67,941	35,352	-	-	67,941	35,352
Water and sewer	-	-	1,743,925	1,381,296	1,743,925	1,381,296
Total expenses	<u>2,505,230</u>	<u>2,476,632</u>	<u>1,743,925</u>	<u>1,381,296</u>	<u>4,249,155</u>	<u>3,857,928</u>
Increase in net position before transfers	107,560	96,944	(454,716)	280,157	(347,156)	377,101
Transfers	(53,560)	-	53,560	-	-	-
Increase (Decrease) in net position	54,000	96,944	(401,156)	280,157	(347,156)	377,101
Net position, beginning	<u>2,337,462</u>	<u>2,240,518</u>	<u>6,406,291</u>	<u>6,126,134</u>	<u>8,743,753</u>	<u>8,366,652</u>
Net position, end of year	<u>\$ 2,391,462</u>	<u>\$ 2,337,462</u>	<u>\$ 6,005,135</u>	<u>\$ 6,406,291</u>	<u>\$ 8,396,597</u>	<u>\$ 8,743,753</u>

Governmental activities: Governmental activities increased the Town's overall net position by \$54,000. Key elements of this increase are as follows:

- State revenues increased due to modest improvement in our economic environment
- Funding from the County to support our Recue Squad increased
- Property Tax collections were up
- Cost cutting measures in each department
- Department heads were prudent with spending

Business-Type activities: Business-Type activities decreased the Town's overall net position by \$401,156. Key elements of this decrease are as follows:

- Significant increase in water in our sewer system caused substantial increase in cost of wastewater treatment
- Increased costs due to project to clean and camera our sewer system in an effort to find source of increased water in the sewer system
- Began two capital projects, one a major upgrade to our water treatment plant and one to upgrade our sewer system

Financial Analysis of the Town's Funds

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

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

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

Revenues were more than the budgeted amounts primarily because unrestricted intergovernmental revenues were higher than anticipated. Also, Expenditures were held in check and the Town was able to comply with its budgetary requirements.

Proprietary Funds. The Town of Carthage'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 Fund and Sewer Fund, combined, at the end of the fiscal year amounted to \$136,277. The total decrease in net position was \$401,156. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Town of Carthage's business-type activities.

Capital Asset and Debt Administration

Capital assets. The Town of Carthage's investment in capital assets for its governmental and business-type activities as of June 30, 2016, totals \$10,493,713 (net of accumulated depreciation). These assets include buildings, land, machinery and equipment, park facilities, and vehicles. Major capital asset transactions during the year include the following additions (there were no significant demolitions or disposals):

- Increase in construction in progress by \$1,621,170.

Town of Carthage's Capital Assets (Net of depreciation)

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Land	\$ 304,650	\$ 304,650	\$ 124,787	\$ 124,787	\$ 429,437	\$ 429,437
Buildings and Improvements	914,624	950,777	1,278,974	1,329,083	2,193,598	2,279,860
Water & Sewer improvements	-	-	4,265,148	4,420,532	4,265,148	4,420,532
Machinery, Furniture & Equipment	630,643	780,377	1,194,943	1,297,958	1,825,586	2,078,335
Construction in progress	-	-	1,779,944	158,774	1,779,944	158,774
Total	<u>\$ 1,849,917</u>	<u>\$ 2,035,804</u>	<u>\$ 8,643,796</u>	<u>\$ 7,331,134</u>	<u>\$ 10,493,713</u>	<u>\$ 9,366,938</u>

Additional information on the Town's capital assets can be found in NOTE 2.A. of the Basic Financial Statements.

Long-term Debt. As of June 30, 2016, the Town of Carthage had total bonded and installment debt outstanding of \$3,708,190. Of this, \$3,708,190 is debt backed by the full faith and credit of the Town and all other debt is covered by pledged collateral and is subject to appropriation.

Town of Carthage's Outstanding Debt ***General Obligation Bonds***

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Totals</u>	
	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Capital lease obligations	\$ -	\$ 52,716	\$ -	\$ 7,393	\$ -	\$ 60,109
Installment purchases	798,121	891,212	-	-	798,121	891,212
Revenue bond	-	-	1,026,000	1,041,000	1,026,000	1,041,000
Note payable	-	-	1,884,069	164,869	1,884,069	164,869
Total	<u>\$ 798,121</u>	<u>\$ 943,928</u>	<u>\$ 2,910,069</u>	<u>\$ 1,213,262</u>	<u>\$ 3,708,190</u>	<u>\$ 2,157,190</u>

Town of Carthage's Outstanding Debt

The Town of Carthage's debt increased by \$1,551,000 (71.9%) during the past fiscal year, primarily due to principal payments on existing bonded debt.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for Town of Carthage is approximately \$40,643,734.

Additional information regarding the Town of Carthage's long-term debt can be found in NOTE 2.B.5. beginning on page 39 of this report.

The following key economic indicators reflect the growth and prosperity of the Town:

The Town of Carthage continues to see positive growth in its tax base. The developers of the Forest Ridge Subdivision have completed several houses in Phase 3A. The infrastructure is completed and they are preparing to start construction of homes in Phase 3B. The infrastructure and several homes have been completed in the Savannah Garden Subdivision. The infrastructure has been completed and homes are under construction in the Hadley's Ridge Subdivision. We continue to be contacted by developers interested in Carthage.

We have undertaken a project to improve the Town's water treatment plant and distribution system. This project is almost finished. When it is completed by the end of January 2017, we should have some of the best water quality in the state! Work to upgrade our sewer system is slated to begin by the end of January 2017. We have also made some operational changes that will allow us to cut the amount of wastewater being treated, in turn reducing our cost. These changes include redirecting our wastewater flows at the sewer lagoon and fixing the sewer master meter to record accurate flows to the County wastewater plant. This will be a great help in increasing our net position in the future.

Budget Highlights for the Fiscal Year Ending June 30, 2017

Governmental Activities: The Town's property tax rate will not increase in Fiscal Year 2016-17. The tax base is estimated at \$223,545,800, a 4% increase in valuation from the previous year. The \$0.495 tax rate is projected to generate approximately \$1,095,501 in revenues. Tax revenues are estimated to be \$33,213, 3.1% more than FY 2015-16 projected revenues. Based on the current economic situation, revenue projections from the state are expected to increase. Interest rates are still low and provide a limited revenue source.

Although there were cuts in some areas, budgeted expenditures in the General Fund will increase by approximately 3.77%, \$93,943. This increase is due to a partial implementation of a new pay plan, inflationary increases in the cost of departmental operations and a one-time purchase of a new phone system and server.

Business-type Activities: The Water and Sewer Fund, for its basic operations, will again operate on its own. Water and Sewer revenues are expected to modestly increase due to continued growth in our customer base. General operating expenses are expected to increase due to an increase in rates to treat wastewater, inflationary increases in the cost of departmental operations and increased debt service. A new water plant pre-treatment facility will come online which will improve water quality and reduce wastewater. Other measures should also help to reduce wastewater flows and cost of treatment.

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 Finance Officer, Town of Carthage, 4396 Hwy 15/501, Carthage, North Carolina 28327.

BASIC FINANCIAL STATEMENTS

TOWN OF CARTHAGE, NORTH CAROLINA
STATEMENT OF NET POSITION
JUNE 30, 2016

Exhibit 1

	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:			
Cash and cash equivalents	\$ 1,283,955	\$ 42,929	\$ 1,326,884
Receivables:			
Taxes receivable, net	9,582	-	9,582
Accounts receivable, net	171,744	638,294	810,038
Cash and cash equivalents - restricted	72,790	156,896	229,686
Capital assets:			
Non-depreciable capital assets	304,650	1,904,731	2,209,381
Other capital assets, net of depreciation	1,545,267	6,739,065	8,284,332
Total assets	<u>3,387,988</u>	<u>9,481,915</u>	<u>12,869,903</u>
Deferred Outflows of Resources:			
Contributions to pension plan subsequent to the measurement date	60,754	5,841	66,595
Total deferred outflows of resources	<u>60,754</u>	<u>5,841</u>	<u>66,595</u>
Total assets and deferred outflows of resources	<u>\$ 3,448,742</u>	<u>\$ 9,487,756</u>	<u>\$ 12,936,498</u>
Liabilities:			
Accounts payable and accrued liabilities	\$ 59,698	\$ 531,122	\$ 590,820
Accrued interest payable	11,880	-	11,880
Current portion of compensated absences	25,240	3,872	29,112
Current portion of long-term debt	55,581	47,616	103,197
Customer deposits	-	21,765	21,765
Long-term liabilities:			
Non-current portion of long-term debt	742,540	2,862,453	3,604,993
Non-current portion of compensated absences	25,240	3,871	29,111
Total liabilities	<u>920,179</u>	<u>3,470,699</u>	<u>4,390,878</u>
Deferred Inflows of Resources:			
Net pension liability	80,307	6,983	87,290
Pension deferrals	56,794	4,939	61,733
Total deferred inflows of resources	<u>137,101</u>	<u>11,922</u>	<u>149,023</u>
Net Position:			
Net investment in capital assets	1,051,796	5,733,727	6,785,523
Restricted for:			
Stabilization by State statute	171,744	-	171,744
Streets	66,639	-	66,639
Impact fees	-	21,000	21,000
Rural development USDA loan - Debt service	6,151	77,389	83,540
Rural development USDA loan - Short lived asset	-	36,742	36,742
Cemetery perpetual maintenance	18,266	-	18,266
Unrestricted	1,076,866	136,277	1,213,143
Total net position	<u>2,391,462</u>	<u>6,005,135</u>	<u>8,396,597</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 3,448,742</u>	<u>\$ 9,487,756</u>	<u>\$ 12,936,498</u>

**TOWN OF CARTHAGE, NORTH CAROLINA
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

Exhibit 2

	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-Type Activities	Total
Functions/Programs:							
Primary Government:							
Governmental Activities:							
General government	\$ 660,607	\$ -	\$ 77,469	\$ -	\$ (583,138)	\$ -	\$ (583,138)
Public safety	1,209,673	-	148,854	-	(1,060,819)	-	(1,060,819)
Street and sanitation	547,520	157,897	-	-	(389,623)	-	(389,623)
Culture and recreation	19,489	-	-	-	(19,489)	-	(19,489)
Debt service - interest	67,941	-	-	-	(67,941)	-	(67,941)
Total governmental activities	2,505,230	157,897	226,323	-	(2,121,010)	-	(2,121,010)
Business-Type Activities:							
Water	959,792	720,918	-	-	-	(238,874)	-
Sewer	784,133	568,180	-	-	-	(215,953)	(215,953)
Total business-type activities	1,743,925	1,289,098	-	-	-	(454,827)	(215,953)
Total primary government	<u>\$ 4,249,155</u>	<u>\$ 1,446,995</u>	<u>\$ 226,323</u>	<u>\$ -</u>	<u>(2,121,010)</u>	<u>(454,827)</u>	<u>(2,336,963)</u>
General Revenues:							
Ad valorem taxes					1,339,250	-	1,339,250
Other taxes and licenses					557,414	-	557,414
Unrestricted intergovernmental					197,652	-	197,652
Other general revenues					133,048	-	133,048
Investment earnings					1,206	111	1,317
Transfers					(53,560)	53,560	-
Total general revenues and transfers					2,175,010	53,671	2,228,681
Change in net position					54,000	(401,156)	(347,156)
Net Position:							
Beginning of year - July 1					2,337,462	6,406,291	8,743,753
End of year - June 30					<u>\$ 2,391,462</u>	<u>\$ 6,005,135</u>	<u>\$ 8,396,597</u>

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

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TOWN OF CARTHAGE, NORTH CAROLINA
BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2016

Exhibit 3

	<u>Major</u> <u>General</u> <u>Fund</u>	<u>Nonmajor</u> <u>Perpetual Care</u> <u>Fund</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Assets:			
Cash and cash equivalents	\$ 1,257,900	\$ 26,055	\$ 1,283,955
Taxes receivable, net	9,582	-	9,582
Accounts receivable, net	20,872	-	20,872
Due from other governments	150,870	2	150,872
Restricted cash	<u>72,790</u>	<u>-</u>	<u>72,790</u>
Total assets	<u>\$ 1,512,014</u>	<u>\$ 26,057</u>	<u>\$ 1,538,071</u>
Liabilities:			
Accounts payable and accrued liabilities	<u>59,698</u>	<u>-</u>	<u>59,698</u>
Total liabilities	<u>59,698</u>	<u>-</u>	<u>59,698</u>
Deferred Inflows of Resources:			
Property taxes receivable	<u>9,582</u>	<u>-</u>	<u>9,582</u>
Total deferred inflows of resources	<u>9,582</u>	<u>-</u>	<u>9,582</u>
Fund Balances:			
Non-spendable, not in spendable form:			
Perpetual maintenance	-	18,266	18,266
Restricted:			
Stabilization by State statute	171,742	2	171,744
Streets	66,639	-	66,639
Debt service	6,151	-	6,151
Assigned:			
Subsequent year's expenditures	170,200	-	170,200
Perpetual care	-	7,789	7,789
Unassigned	<u>1,028,002</u>	<u>-</u>	<u>1,028,002</u>
Total fund balances	1,442,734	26,057	1,468,791
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,512,014</u>	<u>\$ 26,057</u>	<u>\$ 1,538,071</u>
Reconciliation of fund balance as reported in the balance sheet - governmental funds with net position - governmental activities			
Fund balance as reported in the balance sheet - governmental funds			1,468,791
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			1,849,917
Net pension liability			(80,307)
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position			60,754
Long-term liabilities, compensated absences, and accrued interest are not due and payable in the current period and, therefore, are not reported in the funds.			(860,481)
Pension related deferrals			(56,794)
Liabilities for earned revenues considered deferred inflows of resources in fund statements.			<u>9,582</u>
Net position of governmental activities			<u>\$ 2,391,462</u>

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

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TOWN OF CARTHAGE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit 4

	<u>Major</u> <u>General</u> <u>Fund</u>	<u>Nonmajor</u> <u>Perpetual Care</u> <u>Fund</u>	<u>Total</u>
Revenues:			
Ad valorem taxes	\$ 1,342,285	\$ -	\$ 1,342,285
Other taxes and licenses	557,414	-	557,414
Unrestricted intergovernmental	197,652	-	197,652
Restricted intergovernmental	226,323	-	226,323
Sales and services	157,897	-	157,897
Investment earnings	1,086	120	1,206
Miscellaneous	133,048	-	133,048
Total revenues	<u>2,615,705</u>	<u>120</u>	<u>2,615,825</u>
Expenditures:			
Current:			
General government	612,053	-	612,053
Public safety	1,123,513	-	1,123,513
Street and sanitation	547,520	-	547,520
Culture and recreation	19,489	-	19,489
Debt service:			
Principal	93,092	-	93,092
Interest	53,900	-	53,900
Total expenditures	<u>2,449,567</u>	<u>-</u>	<u>2,449,567</u>
Revenues over (under) expenditures	166,138	120	166,258
Other Financing Sources (Uses):			
Transfers in	49,831	(49,831)	-
Transfers (out)	(53,560)	-	(53,560)
Total other financing sources (uses)	<u>(3,729)</u>	<u>(49,831)</u>	<u>(53,560)</u>
Net change in fund balances	<u>162,409</u>	<u>(49,711)</u>	<u>112,698</u>
Fund Balances:			
Beginning of year - July 1	<u>1,280,325</u>	<u>75,768</u>	<u>1,356,093</u>
End of year - June 30	<u>\$ 1,442,734</u>	<u>\$ 26,057</u>	<u>\$ 1,468,791</u>

TOWN OF CARTHAGE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit 5

Amounts reported for governmental activities in the Statement of Activities (Exhibit B) are different due to the following items:

Net change in fund balances	\$	112,698
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, the gain/loss on disposal of those assets would also differ between the two statements in an amount equal to the basis of the asset reported on the date of disposal		
Depreciation		(185,887)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds		
Taxes including penalties and interest		(3,035)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.		60,754
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.		
Compensated absences		(8,439)
Pension expense		(1,142)
Accrued interest payable is not shown on the governmental funds statement; however, in the Statement of Activities, the change in accrued interest is reflected.		(14,041)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar		93,092
Change in net position of governmental activities (Exhibit 2)	\$	<u>54,000</u>

TOWN OF CARTHAGE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit 6

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Over/Under
Revenues:				
Ad valorem taxes	\$ 1,316,260	\$ 1,316,260	\$ 1,342,285	\$ 26,025
Other taxes and licenses	519,300	519,300	557,414	38,114
Unrestricted intergovernmental	197,450	193,950	197,652	3,702
Restricted intergovernmental	262,407	262,407	226,323	(36,084)
Sales and services	174,264	174,264	157,897	(16,367)
Investment earnings	1,100	1,100	1,086	(14)
Miscellaneous	98,247	124,655	133,048	8,393
Total revenues	<u>2,569,028</u>	<u>2,591,936</u>	<u>2,615,705</u>	<u>23,769</u>
Expenditures:				
Current:				
General government	633,346	651,163	612,053	39,110
Public safety	1,189,783	1,199,911	1,123,513	76,398
Street and sanitation	570,469	638,767	547,520	91,247
Cultural and recreation	25,354	27,387	19,489	7,898
Debt service:				
Principal	110,451	96,276	93,092	3,184
Interest	39,825	54,000	53,900	100
Total expenditures	<u>2,569,228</u>	<u>2,667,504</u>	<u>2,449,567</u>	<u>217,937</u>
Revenues over (under) expenditures	<u>(200)</u>	<u>(75,568)</u>	<u>166,138</u>	<u>241,706</u>
Other Financing Sources (Uses):				
Transfer to Cemetery Fund	-	49,831	49,831	-
Transfer to Sewer Fund	-	(53,560)	(53,560)	-
Fund balance appropriated	<u>200</u>	<u>79,297</u>	<u>-</u>	<u>(79,297)</u>
Total other financing sources (uses)	<u>200</u>	<u>75,568</u>	<u>(3,729)</u>	<u>(79,297)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>162,409</u>	<u>\$ 162,409</u>
Fund Balance:				
Beginning of year - July 1			<u>1,280,325</u>	
End of year - June 30			<u>\$ 1,442,734</u>	

TOWN OF CARTHAGE, NORTH CAROLINA
STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
June 30, 2016

Exhibit 7

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Fund</u>
Assets:			
Current assets:			
Cash and investments	\$ 66,556	\$ (23,627)	\$ 42,929
Customer receivables, net	83,330	62,356	145,686
Due from other governments	488,141	4,467	492,608
Restricted cash	54,765	102,131	156,896
Total current assets	<u>692,792</u>	<u>145,327</u>	<u>838,119</u>
Non-current assets:			
Land and construction in progress	1,875,461	29,270	1,904,731
Other capital assets, net of depreciation	3,944,226	2,794,839	6,739,065
Total non-current assets	<u>5,819,687</u>	<u>2,824,109</u>	<u>8,643,796</u>
Total assets	<u>6,512,479</u>	<u>2,969,436</u>	<u>9,481,915</u>
Deferred Outflows of Resources:			
Contributions to pension plan subsequent to the measurement date	4,052	1,789	5,841
Total deferred outflows of resources	<u>4,052</u>	<u>1,789</u>	<u>5,841</u>
Liabilities:			
Current liabilities:			
Accounts payable and accrued liabilities	471,233	59,889	531,122
Current portion of compensated absences	2,939	933	3,872
Current portion of long-term debt	15,808	31,808	47,616
Liabilities to be paid from restricted assets:			
Customer deposits	11,972	9,793	21,765
Total current liabilities	<u>501,952</u>	<u>102,423</u>	<u>604,375</u>
Non-current liabilities:			
Non-current portion of long-term debt	1,766,231	1,096,222	2,862,453
Compensated absences	2,938	933	3,871
Total non-current liabilities	<u>1,769,169</u>	<u>1,097,155</u>	<u>2,866,324</u>
Total liabilities	<u>2,271,121</u>	<u>1,199,578</u>	<u>3,470,699</u>
Deferred Inflows of Resources:			
Net pension liability	4,818	2,165	6,983
Pension deferrals	3,408	1,531	4,939
	<u>8,226</u>	<u>3,696</u>	<u>11,922</u>
Net Position:			
Net investment in capital assets	4,037,648	1,696,079	5,733,727
Restricted for impact fees	21,000	-	21,000
Restricted for rural development USDA loan-Debt service	6,743	70,646	77,389
Restricted for rural development USDA loan-Short lived asset	15,050	21,692	36,742
Unrestricted	156,743	(20,466)	136,277
Total net position	<u>\$ 4,237,184</u>	<u>\$ 1,767,951</u>	<u>\$ 6,005,135</u>

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

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**TOWN OF CARTHAGE, NORTH CAROLINA
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016**

Exhibit 8

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Fund</u>
Operating Revenues:			
Charges for sales and services	\$ 716,309	\$ 543,547	\$ 1,259,856
Other operating revenue	4,609	24,633	29,242
Total operating revenues	<u>720,918</u>	<u>568,180</u>	<u>1,289,098</u>
Operating Expenses:			
Water operations	761,682	-	761,682
Sewer operations	-	626,967	626,967
Depreciation	196,451	136,517	332,968
Total operating expenses	<u>958,133</u>	<u>763,484</u>	<u>1,721,617</u>
Operating income (loss)	<u>(237,215)</u>	<u>(195,304)</u>	<u>(432,519)</u>
Non-Operating Revenues (Expenses):			
Interest and fees paid	(1,659)	(20,649)	(22,308)
Investment earnings	82	29	111
Total non-operating revenues (expenses)	<u>(1,577)</u>	<u>(20,620)</u>	<u>(22,197)</u>
Income (loss) before transfers	(238,792)	(215,924)	(454,716)
Transfers from other funds	<u>(64,614)</u>	<u>118,174</u>	<u>53,560</u>
Change in net position	<u>(303,406)</u>	<u>(97,750)</u>	<u>(401,156)</u>
Net Position:			
Beginning of year - July 1	<u>4,540,590</u>	<u>1,865,701</u>	<u>6,406,291</u>
End of year - June 30	<u>\$ 4,237,184</u>	<u>\$ 1,767,951</u>	<u>\$ 6,005,135</u>

TOWN OF CARTHAGE, NORTH CAROLINA
STATEMENT OF CASH FLOWS
PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit 9

	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Total Enterprise Fund</u>
Cash Flows from Operating Activities:			
Cash received from customers	\$ 705,765	\$ 566,927	\$ 1,272,692
Cash paid for goods and services	(705,639)	(552,084)	(1,257,723)
Cash paid to employees for services	(83,279)	(32,781)	(116,060)
Customer deposits	356	289	645
Net cash (used) by operating activities	<u>(82,797)</u>	<u>(17,649)</u>	<u>(100,446)</u>
Cash Flows from Capital and Related Financing Activities:			
Transfers	(64,614)	118,174	53,560
Proceeds from long-term debt	1,750,674	-	1,750,674
Principal paid on long-term debt	(7,135)	(46,732)	(53,867)
Interest paid on long-term debt	(1,659)	(20,649)	(22,308)
Acquisition and construction of capital assets	<u>(1,628,861)</u>	<u>(16,770)</u>	<u>(1,645,631)</u>
Net cash provided by capital and related financing activities	<u>48,405</u>	<u>34,023</u>	<u>82,428</u>
Cash Flows from Investing Activities:			
Investment earnings	<u>82</u>	<u>29</u>	<u>111</u>
Net increase (decrease) in cash and cash equivalents	(34,310)	16,403	(17,907)
Cash and cash equivalents - July 1	<u>155,631</u>	<u>62,101</u>	<u>217,732</u>
Cash and cash equivalents - June 30	<u>\$ 121,321</u>	<u>\$ 78,504</u>	<u>\$ 199,825</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:			
Operating (loss)	\$ (237,215)	\$ (195,304)	\$ (432,519)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	196,451	136,517	332,968
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable	(475,656)	(1,253)	(476,909)
Decrease in accrued compensated absences	(2,811)	(3,236)	(6,047)
Decrease in net pension asset	13,614	6,117	19,731
(Increase) decrease in deferred outflows of resources-pensions	3,072	1,411	4,483
Increase in net pension liability	4,818	2,165	6,983
Increase (decrease) in deferred inflows of resources-pensions	(25,125)	(11,288)	(36,413)
Increase (decrease) in accounts payable and accrued liabilities	439,699	46,933	486,632
Increase (decrease) in customer deposits	<u>356</u>	<u>289</u>	<u>645</u>
Net cash (used) by operating activities	<u>\$ (82,797)</u>	<u>\$ (17,649)</u>	<u>\$ (100,446)</u>

NOTES TO THE FINANCIAL STATEMENTS

These notes are intended to communicate information necessary for a fair presentation of financial position and results of operations that are not readily apparent from, or cannot be included in, the financial statement themselves. The notes supplement the financial statements, and are an integral part thereof, and are intended to be read in conjunction with the financial statements.

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected Mayor and a five-member Council. As required by generally accepted accounting principles, these financial statements present the total financial position of the Town.

B. Basis of Presentation

Government-Wide Statements. The Statement of Net Position and the Statement of Activities display information about the primary government (the Town). 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. Indirect expense allocations that have been made in the funds have been reversed for the Statement of Activities. Program revenues include: (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements. The fund financial statements provide information about the Town's funds. Separate statements for each fund category – *governmental* and *proprietary* – are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

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

The Town reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes, State grants, and various other taxes and licenses. The primary expenditures are for general government, public safety, street maintenance and construction, and sanitation services.

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The Town reports the following nonmajor governmental fund:

Cemetery Permanent Fund. This fund is used to account for perpetual care of the municipal cemetery.

The Town reports the following major enterprise fund:

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

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

C. Measurement Focus and Basis of Accounting

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

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

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's 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 non-operating revenues and expenses.

Governmental Fund Financial Statements. Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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 operations of the current year. Also, as of September 1, 2014, 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, 2015, and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

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

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund, Perpetual Care Fund, the Enterprise Funds, and the Capital Reserve Fund. All annual appropriations lapse at the fiscal year-end. A project ordinance is adopted for the Water Capital Project Fund and the Sewer Capital Project Fund. The Water Capital Project Fund and the Sewer Capital Project Fund are consolidated with the respective operating funds for reporting purposes. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. All amendments must be approved by the governing board and the Board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Fund Equity

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 bankers' acceptances, and the North Carolina Capital Management Trust (NCCMT).

The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT Cash Portfolio, an SEC-registered (2a-7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT-Term Portfolio's securities are valued at fair value.

Cash and Cash Equivalents

The Town pools money from 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. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4. The USDA requires the Town to establish a Debt Service Reserve account. This account was established for the payment of debt service if revenues are insufficient and is presented as a restricted asset.

Town of Carthage Restricted Cash

Governmental Activities:

General Fund

Streets \$ 66,639

Debt Service 6,151

Total governmental activities 72,790

Business-Type Activities:

Water and Sewer Fund

Customer deposits 21,765

Debt service reserve 77,389

Short lived asset reserve-USDA 36,742

Water impact fees reserve 21,000

Total business-type activities 156,896

Total Restricted Cash \$ 229,686

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Fund Equity (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 (lien date); however, interest does not accrue until the following January 6. These taxes are based on the assessed values as of January 1, 2015. 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. This amount is estimated by analyzing the percentage of receivables that were written off in prior years. Allowance for doubtful accounts for all funds are as follows:

	<u>General Fund</u>	<u>Water Fund</u>	<u>Sewer Fund</u>
Taxes receivable	\$ 5,000	\$ -	\$ -
Garbage receivable	2,604	-	-
Water and sewer receivable	-	10,851	8,247
Total	<u>\$ 7,604</u>	<u>\$ 10,851</u>	<u>\$ 8,247</u>

Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add value to the value of the asset or materially extend the assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	15-40 years
Machinery and equipment	5-40 years
Water and sewer improvements	5-40 years

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Fund Equity (Continued)

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net 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 two items that meet this criteria, contributions made to the pension plan in the 2016 fiscal year and pension deferrals. In addition to liabilities, the Statement of Net 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 revenues until then. The Town has two items that meet this criteria – 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 fund 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 the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as debt issuance costs, during the current period. The face amount of the 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 (30) days earned vacation leave, with such leave being fully vested when earned. For the Town's government-wide statements, 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 for full-time employees. Sick leave does not vest, but any unused sick leave accumulated at the time of retirement may be used in the determination of length of service for retirement benefit purposes. Since neither the Town has any obligation for the accumulated sick leave or comp time until it is actually taken, no accrual for sick leave or comp time has been made.

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Fund Equity (Continued)

Net Position/Fund Balances

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, laws or regulations of other governments, or imposed by law through State statute.

Fund Balances

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

The governmental fund types classify fund balances as follows:

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

Perpetual Maintenance – cemetery resources that are required to be retained in perpetuity for maintenance of the Cross Hill Cemetery.

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

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

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

Restricted for Public Safety – portion of fund balances that is available for appropriation but segregated for the Town's fire district

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

Assigned Fund Balance. Assigned fund balance is the portion of fund balance that the Town of Carthage intends to use for specific purposes.

Perpetual Care – cemetery resources that are intended to be used for the maintenance of the Cross Hill Cemetery.

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

1. Summary of Significant Accounting Policies (Continued)

E. Assets, Liabilities, Deferred Inflows/Outflows of Resources, and Fund Equity (Continued)

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

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

The Town of Carthage has also adopted a minimum fund balance policy. Available fund balances at the close of each fiscal year should not fall below 25.0% for cash flow purposes. A Targeted Policy equal to 38.5% of the Town's subsequent year's Total Annual Operating Expense Budget. This percentage represents the equivalent of 4.5 months of operating expenses.

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

Total fund balance – General Fund	\$ 1,442,734
Less: Stabilization by state statute	<u>171,742</u>
Total available fund balance	<u>\$ 1,270,992</u>

Interfund Transactions

Interfund services provided are accounted for as revenues or expenses in the government-wide financial statements, since they would be treated as such if they involved organizations external to the Town. Transactions that constitute reimbursements to a fund or expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursing fund and as reductions of expenditures/expenses in the fund that is reimbursed. All other interfund transactions are reported as transfers.

Use of Estimates

The preparation of financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect certain reported amounts and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds

A. Assets

Pensions

For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Carthage's employer contributions are recognized when due and the Town of Carthage 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.

Deposits

All of 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 are collateralized with securities held by the Town's agent in the Town'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 the Town's 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 amount of collateral pledged for the Town under the Pooling Method, the potential exists for undercollateralization. This risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2016, the Town's deposits had a carrying amount of \$1,493,975 and a bank balance of \$1,626,193. Of the bank balance, \$750,212 was covered by federal depository insurance, and \$875,981 was covered by collateral held under the Pooling Method. At June 30, 2016, the Town's petty cash fund totaled \$500.

Investments

At June 30, 2016, the Town of Carthage had \$62,095 invested with the North Carolina Capital Management Trust's Capital Portfolio which carried a credit rating of AAA by Standard and Poor's. The Town has no policy regarding credit risk.

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

Accounts Receivable

Accounts receivable presented in the Statement of Net Position consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Due from other governments	\$ 150,872	\$ 492,608	\$ 643,480
Customer receivables	20,872	145,686	166,558
Total	\$ 171,744	\$ 638,294	\$ 810,038

Capital Assets

Primary Government

Capital asset activity for governmental activities for the year ended June 30, 2016, was as follows:

<u>Governmental Activities</u>	<u>July 1, 2015</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2016</u>
Non-Depreciable Capital Assets:				
Land	\$ 304,650	\$ -	\$ -	\$ 304,650
Total non-depreciable capital assets	304,650	-	-	304,640
Depreciable Capital Assets:				
Buildings and improvements	1,433,476	-	-	1,433,476
Furniture and equipment	2,552,828	-	4,900	2,547,928
Total depreciable capital assets	3,986,304	-	4,900	3,981,404
Less Accumulated Depreciation:				
Buildings and improvements	482,699	36,153	-	518,852
Furniture and equipment	1,772,451	149,734	4,900	1,917,285
Total accumulated depreciation	2,255,150	185,887	4,900	2,436,137
Total depreciable capital assets, net	<u>1,731,154</u>			<u>1,545,237</u>
Governmental activities capital assets, net	<u>\$ 2,035,804</u>			<u>\$ 1,849,917</u>

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

General government	\$ 47,412
Public safety	138,475
Total depreciation expense	\$ 185,887

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

Proprietary Capital Assets

The capital asset activity of the Proprietary Fund for the year ended June 30, 2016, was as follows:

Business-Type Activities	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016
Water				
Non-Depreciable Capital Assets:				
Land	\$ 124,787	\$ -	\$ -	\$ 124,787
Construction in progress	146,274	1,604,400	-	1,750,674
Total non-depreciable capital assets	271,061	1,604,400	-	1,875,461
Depreciable Capital Assets:				
Buildings and improvements	2,091,095	-	-	2,091,095
Machinery and equipment	2,065,949	24,461	-	2,090,410
Water improvements	2,666,087	-	-	2,666,087
Total depreciable capital assets	6,823,131	24,461	-	6,847,592
Less Accumulated Depreciation:				
Buildings and improvements	762,012	50,109	-	812,121
Machinery and equipment	717,477	54,666	-	772,143
Water improvements	1,227,426	91,676	-	1,319,102
Total accumulated depreciation	2,706,915	196,451	-	2,903,366
Total depreciable capital assets, net	4,116,216			3,944,226
Total Water capital assets, net	\$ 4,387,278			\$ 5,819,687
	Balance	Increases	Decreases	Balance
	July 1, 2015			June 30, 2016
Sewer				
Non-Depreciable Capital Assets:				
Construction in progress	\$ 12,500	\$ 16,770	\$ -	\$ 29,270
Total non-depreciable capital assets	12,500	16,770	-	29,270
Depreciable Capital Assets:				
Buildings and improvements	4,596	-	-	4,596
Machinery and equipment	448,071	-	-	448,071
Sewer improvements	4,359,766	-	-	4,359,766
Total depreciable capital assets	4,812,433	-	-	4,812,433
Less Accumulated Depreciation:				
Buildings and improvements	4,596	-	-	4,596
Machinery and equipment	498,585	72,810	-	571,395
Sewer improvements	1,377,896	63,707	-	1,441,603
Total accumulated depreciation	1,881,077	136,517	-	2,017,594
Total depreciable capital assets, net	2,931,356			2,794,839
Total Sewer capital assets, net	\$ 2,943,856			\$ 2,824,109
Business-Type Activities capital assets, net	\$ 7,331,134			\$ 8,643,796

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds (Continued)

A. Assets (Continued)

Net Investment In Capital Assets

The total net investment in capital assets, at June 30, 2016, is composed of the following elements:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Capital assets	\$ 1,849,917	\$ 8,643,796
Long-term debt related capital assets	<u>(798,121)</u>	<u>(2,910,069)</u>
Net investment in capital assets	\$ 1,051,796	\$ 5,733,727

B. Liabilities

Accounts Payable and Accrued Liabilities

Payables at June 30, 2016, were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
Governmental Activities:			
General	<u>\$ 46,115</u>	<u>\$ 13,583</u>	<u>\$ 59,698</u>
Business-Type Activities:			
Water and Sewer	<u>\$ 527,416</u>	<u>\$ 3,706</u>	<u>\$531,122</u>

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town of Carthage is a participating employer in the statewide Local Governmental Employees' Retirement System (LGERS), a cost-sharing multiple-employer defined benefit pension plan administered by the State of North Carolina. LGERS membership is comprised of general employees and local law enforcement officers (LEOs) of participating local governmental entities. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. Management of the plan is vested in the LGERS Board of Trustees, which consists of 13 members – nine appointed by the Governor, one appointed by the State Senate, one appointed by the State House of Representatives, and the State Treasurer and State Superintendent, who serve as ex-officio members. The Local Governmental Employees' Retirement System is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for LGERS. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, by calling (919) 981-5454, or at www.osc.nc.gov.

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

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

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

Contributions. Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Carthage employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Carthage's contractually required contribution rate for the year ended June 30, 2016, was 7.15% of compensation for law enforcement officers and 6.67% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Carthage were \$66,595 for the year ended June 30, 2016.

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.

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

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

At June 30, 2016, the Town reported a liability of \$87,290 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2015. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2014. The total pension liability was then rolled forward to the measurement date of June 30, 2015 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension 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, 2015, the Town's proportion was 0.01945%, which was a decrease of 0.00023% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the Town recognized pension expense of \$45,500. At June 30, 2016, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred Inflows of <u>Resources</u>
Differences between expected and actual experience	\$ -	\$ 20,518
Net difference between projected and actual earnings on pension plan investments	-	24,851
Charges in proportion and differences between Town contributions and proportionate share of contributions	29,692	16,363
Town contributions subsequent to the measurement date	<u>66,595</u>	<u>-</u>
Total	<u>\$ 96,287</u>	<u>\$ 61,733</u>

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

\$66,595 reported 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:

<u>Year Ended June 30</u>	<u>Amount</u>
2017	\$ (23,309)
2018	(23,309)
2019	(23,377)
2020	<u>37,955</u>
Total	\$ (32,041)

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

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

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

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

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

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

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

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, 2015 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	2.2%
Global Equity	42.0%	5.8%
Real Estate	8.0%	5.2%
Alternatives	8.0%	9.8%
Credit	7.0%	6.8%
Inflation Protection	<u>6.0%</u>	3.4%
Total	<u>100.0%</u>	

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

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

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

	<u>1% Decrease (6.25%)</u>	<u>Discount Rate (7.25%)</u>	<u>1% Increase (8.25%)</u>
Town's proportionate share of the net pension liability (asset)	<u>\$ 608,685</u>	<u>\$ 87,290</u>	<u>\$ (351,974)</u>

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

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

All full-time law enforcement officers of the Town are covered by the Separation Allowance. At December 31, 2015, the Separation Allowance membership consisted of:

Retirees and beneficiaries currently receiving benefits	-
Current employees	<u>9</u>
Total	<u>9</u>

A separate report was not issued for the plan.

Summary of Significant Accounting Policies

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

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds (Continued)

B. Liabilities (Continued)

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

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

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

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

The Town has not obtained an actuarial valuation of the plan because its reported contributions are considered immaterial.

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 5% 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, 2016, were \$23,422, which consisted of \$21,949 from the Town and \$1,473 from the law enforcement officers.

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds **(Continued)**

B. Liabilities (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.

Installment Purchases

The Town has entered an installment purchase contract to finance a building and land for a Town hall. The Town also entered into an installment purchase contract to finance the purchase of a fire truck and an additional contract to finance a crash truck. The terms of these installment purchases are as follows:

Governmental Activities:

USDA installment purchase originally issued on January 2, 2002 for \$630,000 due in annual payments of \$35,469 including interest @ 4.75%	\$ 520,769
USDA installment purchase originally issued on May 2, 2007 for \$350,000 due in annual payments of \$26,040 including interest @ 4.125%	226,583
Installment purchase originally issued on November 18, 2011 for 42,291 due in annual payments of \$8,978 including interest @ 2.13%	8,779

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds (Continued)

Installment purchase originally issued on March 25, 2015 for \$30,000 due in annual payments of \$4,725 including interest @ 2.50%	26,025
Installment purchase originally issued on December 4, 2014 for \$31,600 due in annual payments of \$15,992 including interest @ 0.80%	<u>15,965</u>
Total installment purchases	798,121
Less current portion	<u>55,581</u>
	\$ 742,540

Notes Payable

Notes payable included in the accompanying financial statements were used to finance sewer improvements.

The Town's notes payable are comprised of the following:

Business-Type Activities:

Note payable originally issued on February 2, 2015 for \$87,869 due in annual payment of \$19,263, including interest @ 3.50%	\$ 70,665
Note payable originally issued on September 18, 2014 for \$77,000 due in annual payments of \$17,100 including interest @3.5%	62,730
Water & Sewer Treatment System Bond Anticipation Note (USDA); still in progress with interest @ 2.25%, loan has not yet commenced	<u>1,750,674</u>
Total notes payable	1,884,069
Less current portion	<u>31,616</u>
	\$1,852,453

Revenue Bonds

A revenue bond was issued to cover costs of improvements to the water and sewer fund.

Business-Type Activities

USDA revenue bond originally issued on November 18, 2014 for \$1,056,000 due in varying annual payments including interest @ 2.75%.	\$1,026,000
Less current portion	<u>16,000</u>
	\$1,010,000

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

The Town is not in compliance with the covenants as to rates and charges in Section 5.01 of the Bond Order, authorizing the issuance of the Water and Sewer, Series 2014, USDA Revenue Bonds. Section 5.01 of the Bond Order requires the debt service coverage ratio to be no less than 110% and 100% of the subordinated debt service requirement for the fiscal year. The debt service coverage ratio calculation for the year ended June 30, 2016, is as follows:

Operating revenues	\$1,289,098
Operating expenses*	<u>1,388,649</u>
Operating (loss)	(99,551)
Nonoperating revenues (expenses)**	<u>(22,197)</u>
Income available for debt service (loss)	<u>\$(121,748)</u>

Net revenues must be no less than 110% for current year debt service requirements:

Debt service, principal and interest paid (Revenue bond only)	<u>43,628</u>
Debt service ratio	(279)%

Net revenues must be no less than 100% of the amount necessary to pay annual debt service obligations on subordinated indebtedness

Debt service on subordinated indebtedness	None
Debt service on subordinated indebtedness percent coverage	-

* Per rate covenants, this does not include the depreciation expense of \$332,968.

**Per rate covenants, this does not include the revenue bond interest paid of \$28,628.

The Town has pledged future water and sewer customer revenues, net of specified operating expenses, to repay \$1,056,000 in water and sewer system revenue bonds issued in November 2014. Proceeds from the bonds provided financing for the sewer improvements. The bonds are payable solely from water and sewer customer net revenues and are payable through 2054. Annual principal and interest payments on the bonds are expected to require less than 6% of net revenues. The total principal and interest remaining to be paid on the bonds is \$1,026,000. Principal and interest paid for the current year and total customer net revenues were \$15,000 and \$28,628, respectively.

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds (Continued)

Long-Term Obligation Activity

The following is a summary of changes in the Town's long-term obligations as of June 30, 2016:

	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016	Current Portion
Governmental Activities:					
Capital lease obligations	\$ 36,214	\$ -	\$ 36,214	\$ -	\$ -
Installment purchases	854,999	-	56,878	798,121	55,581
Net pension liability (LGERS)	-	80,307	-	80,307	-
Compensated absences	42,041	32,821	24,382	50,480	25,240
Total governmental activities	933,254	113,128	117,474	928,908	80,821
	Balance July 1, 2015	Increases	Decreases	Balance June 30, 2016	Current Portion
Business-Type Activities:					
Capital lease obligations	\$ 7,393	\$ -	\$ 7,393	-	\$ -
Notes payable	164,869	1,750,674	31,474	1,884,069	31,616
Revenue bond	1,041,000	-	15,000	1,026,000	16,000
Net pension liability (LGERS)	-	6,983	-	6,983	-
Compensated absences	13,790	1,767	7,814	7,743	3,871
Total business-type activities	<u>\$ 1,227,052</u>	<u>\$ 1,759,424</u>	<u>\$ 61,681</u>	<u>\$ 2,924,795</u>	<u>\$ 51,487</u>

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

The General Fund provides the resources for the retirement of compensated absences payable. The Town's legal debt limit is 8.0% of the Town's assessed value of taxable property. The Town's legal debt margin as of June 30, 2016, amounts to approximately \$40,643,734.

The following summarizes the annual debt service requirements to maturity for the Town (excluding compensated absences):

Governmental Activities:	<u>Capitalized Leases</u>		<u>Installment Purchases</u>		<u>Total Debt Due</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ -	\$ -	\$ 55,581	\$ 35,712	\$ 55,581	\$ 35,712
2018	-	-	32,175	34,058	32,175	34,058
2019	-	-	33,501	32,733	33,501	32,733
2020	-	-	34,948	31,285	34,948	31,285
2021	-	-	36,262	29,971	36,262	29,971
2022-2026	-	-	185,840	126,427	185,840	126,427
Thereafter	-	-	419,814	194,747	419,814	194,747
	<u>\$ -</u>	<u>\$ -</u>	<u>\$798,121</u>	<u>\$484,933</u>	<u>\$798,121</u>	<u>\$484,933</u>

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds (Continued)

Long-Term Obligation Activity (Continued)

Business-Type Activities:	<u>Capitalized Leases</u>		<u>Installment Purchases</u>		<u>Revenue Bond</u>		<u>Total Debt Due</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ -	\$ -	\$ 31,616	\$ 4,747	\$ 16,000	\$ 28,215	\$ 47,616	\$ 32,962
2018	-	-	32,750	3,612	16,000	27,775	48,750	31,387
2019	-	-	33,913	2,450	17,000	27,335	50,913	29,785
2020	-	-	35,116	1,246	17,000	26,868	52,116	28,114
2021	-	-	-	-	17,000	26,400	17,000	26,400
2022-2026	-	-	-	-	94,000	124,630	94,000	124,630
thereafter	-	-	1,750,674	-	849,000	378,812	2,599,674	378,812
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,884,069</u>	<u>\$ 12,055</u>	<u>\$ 1,026,000</u>	<u>\$ 640,035</u>	<u>\$ 2,910,069</u>	<u>\$ 652,090</u>

Deferred Outflows and Inflows of Resources

The Town has one deferred outflow of resources. Deferred outflows of resources are comprised of the following:

<u>Source</u>	<u>Amount</u>
Contributions to pension plan in current fiscal year	\$ 66,595

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

Net pension liability	\$ 87,290
Pension deferrals	61,733

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 two self-funded risk-financing pool administered by the North Carolina League of Municipalities. These pools are reinsured through commercial companies for single occurrence claims against general liability, auto liability, police professionals' liability, in excess of \$2,000,000; public officials' liability in excess of \$1,000,000; property in excess of \$500,000 and \$1,000,000 up to statutory limits for workers' compensation for the July 1, 2015 – June 30, 2016 policy period.

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 past three fiscal years.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The Town's Finance Officer is bonded for \$60,000. The remaining employees that have access to funds are bonded under a blanket bond for \$60,000.

TOWN OF CARTHAGE, NORTH CAROLINA
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2016

2. Detail Notes on All Funds (Continued)

Claims, Judgments, and Contingent Liabilities

At June 30, 2016, the Town was a defendant to one lawsuit. In the opinion of the Town's management and the Town's attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

Summary Disclosure of Significant Contingencies

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

Interfund Balances and Activity

Transfers to/from other funds at June 30, 2016 consist of the following:

From the General Fund to the Sewer Fund	53,560
From the Perpetual Care Fund to the General Fund	49,831
From the Water fund to the Water Capital Reserve Fund	10,000
From the Water Capital Project Fund to the Water Fund	87,116
From the Water Capital Project Fund to the Sewer Fund	64,614

Fund Balance

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

Total fund balance – General Fund	<u>\$ 1,442,734</u>
Less:	
Stabilization by State Statute	171,742
Streets – Powell Bill	66,639
Debt service	6,151
Appropriated Fund balance in 2017 budget	170,200
Remaining Fund Balance	<u>1,028,002</u>

Required Supplemental Financial Data

This section contains additional information required by the Governmental Accounting Standards Board.

- Schedule of Proportionate Share of Net Pension Liability (Asset) for Local Government Employees' Retirement System
- Schedule of Contributions to Local Government Employees' Retirement System

TOWN OF CARTHAGE, NORTH CAROLINA
Proportionate Share of Net Pension Liability (Asset)
Required Supplementary Information
Last Two Fiscal Years *

Local Government Employees' Retirement System

	2016	2015
Carthage's proportion of the net pension liability (asset) (%)	0.01945%	0.01968%
Carthage's proportion of the net pension liability (asset) (\$)	\$ 87,290	\$ (116,063)
Carthage's covered-employee payroll	\$ 1,111,728	\$ 843,993
Carthage's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	7.85%	(13.05%)
Plan fiduciary net position as a percentage of the total pension liability**	98.09%	102.64%

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

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

TOWN OF CARTHAGE, NORTH CAROLINA
Town of Carthage's Contributions
Required Supplementary Information
Last Two Fiscal Years

Local Government Employees' Retirement System

	2016	2015
Contractually required contribution	\$ 66,595	\$ 60,727
Contributions in relation to the contractually required contribution	<u>66,595</u>	<u>60,727</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Carthage's covered-employee payroll	\$ 1,111,728	\$ 843,993
Contributions as a percentage of covered-employee payroll	5.47%	7.11%

INDIVIDUAL FUND
FINANCIAL STATEMENTS

MAJOR GOVERNMENTAL FUND

General Fund – This fund accounts for resources traditionally associated with government that are not required legally or by sound financial management to be accounted for in other funds.

Perpetual Care Fund – This fund accounts for perpetual care of the municipal cemetery.

TOWN OF CARTHAGE, NORTH CAROLINA
GENERAL FUND
**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL**
For the Fiscal Year Ended June 30, 2016
Exhibit A-1
Page 1 of 4

	Budget	Actual	Variance Over/Under
Revenues:			
Ad Valorem Taxes:			
Taxes	\$ -	\$ 1,336,292	\$ -
Penalties	-	5,993	-
Total	<u>1,316,260</u>	<u>1,342,285</u>	<u>26,025</u>
Other Taxes and Licenses:			
Local option sales taxes	-	547,251	-
Privilege licenses	-	305	-
Motor vehicle license	-	9,858	-
Total	<u>519,300</u>	<u>557,414</u>	<u>38,114</u>
Unrestricted Intergovernmental Revenues:			
Beer and wine tax	-	10,069	-
Utility franchise tax	-	186,099	-
Federal grant	-	1,484	-
Total	<u>193,950</u>	<u>197,652</u>	<u>3,702</u>
Restricted Intergovernmental Revenues:			
Powell Bill	-	77,469	-
Fire/safety - Carthage Rescue Squad	-	49,851	-
Federal grant	-	99,003	-
Total	<u>262,407</u>	<u>226,323</u>	<u>(36,084)</u>
Sales and Services:			
Sanitary landfill participation fees	<u>174,264</u>	<u>157,897</u>	<u>(16,367)</u>
Investment Earnings	<u>1,100</u>	<u>1,086</u>	<u>(14)</u>
Miscellaneous:			
Court costs and fees	-	3,321	-
Cable fees	-	2,599	-
Utility leases	-	55,734	-
Zoning fees	-	6,200	-
Miscellaneous	-	30,191	-
Moore County ABC revenue	-	1,489	-
Administrative charge - Fire District	-	12,000	-
Donations	-	70	-
Insurance proceeds	-	1,399	-
Historical proceeds	-	2,053	-
Cemeteries	-	9,500	-
Appearance Committee	-	2,542	-
Rent	-	5,950	-
Total	<u>124,655</u>	<u>133,048</u>	<u>8,393</u>
Total revenue	<u>2,591,936</u>	<u>2,615,705</u>	<u>23,769</u>

	Budget	Actual	Variance Over/Under
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits	-	9,689	-
Operating expenditures	-	7,070	-
Total	16,325	16,759	(434)
Administration:			
Salaries and employee benefits	-	152,666	-
Operating expenditures	-	165,279	-
Total	352,219	317,945	34,274
Finance:			
Salaries and employee benefits	-	70,445	-
Operating expenditures	-	1,111	-
Total	71,660	71,556	104
Elections:			
Contracted services	5,500	4,640	860
Legal:			
Contracted services	40,000	38,520	1,480
Planning and zoning:			
Salaries and employee benefits	-	22,306	-
Operating expenditures	-	33,190	-
Total	57,315	55,496	1,819
Public Buildings:			
Operating expenditures	-	105,663	-
Total	104,396	105,663	(1,267)
Appearance:			
Operating expenditures	-	1,474	-
Total	3,748	1,474	2,274
Total general government	651,163	612,053	39,110
Public Safety:			
Police:			
Salaries and employee benefits	-	598,650	-
Vehicle maintenance	-	13,056	-
Operating expenditures	-	67,751	-
Total	727,581	679,457	48,124

	Budget	Actual	Variance Over/Under
Fire:			
Salaries and employee benefits	-	319,134	-
Vehicle maintenance	-	36,053	-
Operating expenditures	-	88,869	-
Total	472,330	444,056	28,274
Total public safety	1,199,911	1,123,513	76,398
Street and Highways:			
Salaries and employee benefits	-	193,781	-
Vehicle maintenance	-	3,302	-
Street lights	-	75,893	-
Contracted services	-	9,412	-
Operating expenditures	-	30,091	-
Total	386,780	312,479	74,301
Powell Bill:			
Salaries and employee benefits	-	28,360	-
Operating expenditures	-	38,279	-
Total	83,617	66,639	16,978
Sanitation:			
Contracted services	-	166,868	-
Operating expenditures	-	1,534	-
Total	168,370	168,402	(32)
Total Streets and Sanitation	638,767	547,520	91,247
Cultural and Recreation:			
Operating expenditures	-	17,335	-
Total	23,387	17,335	6,052
Cemeteries			
Operating expenditures	-	2,154	-
Total	4,000	2,154	1,846
Total Cultural and Recreation	27,387	19,489	7,898

TOWN OF CARTHAGE, NORTH CAROLINA

GENERAL FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2016

Exhibit A-1

Page 4 of 4

	Budget	Actual	Variance Over/Under
Debt Service:			
Principal retirement	-	93,092	-
Interest and fees	-	53,900	-
Total debt service	150,276	146,992	3,284
 Total expenditures	 2,667,504	 2,449,567	 217,937
 Revenues over (under) expenditures	 (75,568)	 166,138	 241,706
Other Financing Sources (Uses):			
Issuance of long-term debt	-	-	-
Capital contribution - Carthage Rescue Squad	-	-	-
Transfer to Sewer fund	(53,560)	(53,560)	-
Transfer from Perpetual care fund	49,831	49,831	-
Appropriated fund balance	79,297	-	(79,297)
Total other financing sources (uses)	75,568	(3,729)	(79,297)
 Net change in fund balance	 \$ -	 162,409	 \$ 162,409
Fund Balance:			
Beginning of year - July 1		1,280,325	
 End of year - June 30		 \$ 1,442,734	

PERPETUAL CARE FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -

BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2016

		<u>2016</u>	
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Investment earnings	\$ 100	\$ 120	\$ 20
Total revenues	<u>100</u>	<u>120</u>	<u>20</u>
Other Financing Sources (Uses):			
Appropriated fund balance	49,831	-	(49,831)
Transfer to General Fund	<u>(49,931)</u>	<u>(49,831)</u>	<u>100</u>
Total other financing sources (uses)	<u>(100)</u>	<u>(49,831)</u>	<u>(49,731)</u>
Net change in fund balance	\$ <u>-</u>	(49,711)	\$ <u>(49,711)</u>
Fund Balance:			
Beginning of year - July 1		<u>75,768</u>	
End of year - June 30		<u>\$ 26,057</u>	

ENTERPRISE FUNDS

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or where the governing body has decided that periodic determination of net income is appropriate for accountability purposes.

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

Water Capital Reserve Fund – This fund is used to account for future water fund capital expenditures.

Water Capital Improvement Project Fund – This fund is used to account for the construction and capital addition of the water capital improvement project.

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

Sewer Capital Improvement Project Fund – This fund is used to account for the construction and capital addition of the sewer capital improvement project.

**TOWN OF CARTHAGE, NORTH CAROLINA
WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2016**

**Exhibit B-1
Page 1 of 2**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ -	\$ 653,985	\$ -
Tap fees	-	62,324	-
Total operating revenues	<u>657,226</u>	<u>716,309</u>	<u>59,083</u>
Non-operating revenues:			
Miscellaneous	-	4,609	-
Interest earnings	-	82	-
Total non-operating revenues	<u>4,400</u>	<u>4,691</u>	<u>829</u>
Total revenues	<u>661,626</u>	<u>721,000</u>	<u>59,912</u>
Expenditures:			
Operating expenditures:			
Water salaries and benefits	-	80,468	-
Water operations	-	687,646	-
Total water and sewer operations	<u>801,247</u>	<u>768,114</u>	<u>33,133</u>
Debt principal payment	10,832	7,135	-
Debt interest payment	1,659	1,659	-
Total debt services	<u>12,491</u>	<u>8,794</u>	<u>3,697</u>
Capital Outlay:			
Water	-	24,461	-
Total capital outlay	<u>25,000</u>	<u>24,461</u>	<u>539</u>
Total expenditures	<u>838,738</u>	<u>801,369</u>	<u>37,369</u>
Revenues over (under) expenditures	<u>(177,112)</u>	<u>(80,369)</u>	<u>96,743</u>

**TOWN OF CARTHAGE, NORTH CAROLINA
WATER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2016**

**Exhibit B-1
Page 2 of 2**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues over (under) expenditures	<u>(177,112)</u>	<u>(80,369)</u>	<u>96,743</u>
Other Financing Sources (Uses):			
Transfer from-Water Capital Improvement Project Fund	87,112	87,116	4
Transfer to-Sewer Capital Improvement Project Fund	-	-	-
Transfer to-Capital Reserve Fund	(10,000)	(10,000)	-
Note payable issued	-	-	-
Appropriated fund balance	<u>100,000</u>	<u>-</u>	<u>(100,000)</u>
Total other financing sources (uses)	<u>177,112</u>	<u>77,116</u>	<u>(99,996)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (3,253)</u>	<u>\$ (3,253)</u>

Reconciliation from Budgetary Basis

(Modified Accrual) to Full Accrual Basis:

Revenues and other financing sources over (under) expenditures and other financing uses	\$ (3,253)
Reconciling items:	
Capital assets purchased	24,461
Depreciation	(196,451)
Principal retirement	7,135
Decrease in accrued compensated absences	2,811
Decrease in net pension asset	(13,614)
(Increase) decrease in outflows of resources-pension	(3,072)
Increase in net pension liability	(4,818)
Increase (decrease) in inflows of resources-pension	25,125
Intrafund transfers	<u>(141,730)</u>
Change in net position	<u>\$ (303,406)</u>

**TOWN OF CARTHAGE, NORTH CAROLINA
CAPITAL RESERVE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

Exhibit B-2

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Other Financing Sources (Uses):			
Transfer from Water Fund	\$ 10,000	\$ 10,000	\$ -
Transfer from Sewer Fund	10,000	-	(10,000)
Transfers from Capital Project Fund	-	-	-
Transfers to Water and Sewer Fund	-	-	-
Total other financing sources (uses)	<u>20,000</u>	<u>10,000</u>	<u>(10,000)</u>
 Net change in fund balance	 <u>\$ -</u>	 <u>\$ 10,000</u>	 <u>\$ (10,000)</u>

**TOWN OF CARTHAGE, NORTH CAROLINA
WATER CAPITAL IMPROVEMENT PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

Exhibit B-3

	Project Authorization	Prior Years	Actual Current Year	Total To Date
Revenues:				
Restricted Intergovernmental:				
USDA Grant	\$ 2,234,000	\$ -	\$ -	\$ -
USDA Loan	1,766,000	-	1,750,674	1,750,674
Total revenues	<u>4,000,000</u>	<u>-</u>	<u>1,750,674</u>	<u>1,750,674</u>
Expenditures:				
Engineering	422,300	142,000	117,919	259,919
Development	3,345,000	-	1,447,650	1,447,650
Other	232,700	4,275	16,955	21,230
Total expenditures	<u>4,000,000</u>	<u>146,275</u>	<u>1,582,524</u>	<u>1,728,799</u>
Revenues over (under) expenditures	<u>-</u>	<u>(146,275)</u>	<u>168,150</u>	<u>21,875</u>
Other Financing Sources (Uses):				
Transfer (to) from Water Fund	-	87,116	(87,116)	-
Transfer (to) from Sewer Fund	-	64,614	(64,614)	-
Total other financing sources (uses)	<u>-</u>	<u>151,730</u>	<u>(151,730)</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 5,455</u>	16,420	<u>\$ 21,875</u>
Fund Balance:				
Beginning of year - July 1			<u>5,455</u>	
End of year - June 30			<u>\$ 21,875</u>	

**TOWN OF CARTHAGE, NORTH CAROLINA
SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2016**

**Exhibit B-4
Page 1 of 2**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services	\$ -	\$ 543,547	\$ -
Total operating revenues	<u>571,481</u>	<u>543,547</u>	<u>(27,934)</u>
Non-operating revenues:			
Miscellaneous	-	24,633	-
Interest earnings	-	29	-
Total non-operating revenues	<u>24,496</u>	<u>24,662</u>	<u>829</u>
Total revenues	<u>595,977</u>	<u>568,209</u>	<u>(27,105)</u>
Expenditures:			
Operating expenditures:			
Sewer salaries	-	29,545	-
Sewer operations	-	602,253	-
Total water and sewer operations	<u>681,610</u>	<u>631,798</u>	<u>49,812</u>
Debt principal payment	47,399	46,732	-
Debt interest payment	<u>32,346</u>	<u>20,649</u>	<u>-</u>
Total debt services	<u>79,745</u>	<u>67,381</u>	<u>12,364</u>
Capital Outlay:			
Sewer	-	-	-
Total capital outlay	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>761,355</u>	<u>699,179</u>	<u>62,176</u>
Revenues over (under) expenditures	<u>(165,378)</u>	<u>(130,970)</u>	<u>34,408</u>

**TOWN OF CARTHAGE, NORTH CAROLINA
SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2016**

**Exhibit B-4
Page 2 of 2**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues over (under) expenditures	<u>(165,378)</u>	<u>(130,970)</u>	<u>34,408</u>
Other Financing Sources (Uses):			
Transfer from-General Fund	53,560	53,560	-
Transfer from-Water Capital Improvement Project Fund	64,618	64,614	(4)
Transfer to Capital Reserve	(10,000)		
Appropriated fund balance	<u>57,200</u>	<u>-</u>	<u>(57,200)</u>
Total other financing sources (uses)	<u>165,378</u>	<u>118,174</u>	<u>(47,204)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>\$ (12,796)</u>	<u>\$ (12,796)</u>

Reconciliation from Budgetary Basis

(Modified Accrual) to Full Accrual Basis:

Revenues and other financing sources over (under) expenditures and other financing uses	\$ (12,796)
Reconciling items:	
Capital assets purchased	-
Depreciation	(136,517)
Principal retirement	46,732
Decrease in accrued compensated absences	3,236
Decrease in net pension asset	(6,117)
(Increase) decrease in deferred outflows of resources-pensions	(1,411)
Increase in net pension liability	(2,165)
Increase (decrease) in deferred inflows of resources-pensions	<u>11,288</u>
	<u>(84,954)</u>
Change in net position	<u>\$ (97,750)</u>

**TOWN OF CARTHAGE, NORTH CAROLINA
SEWER CAPITAL IMPROVEMENT PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2016**

Exhibit B-5

	Project Authorization	Prior Years	Actual Current Year	Total To Date
Revenues:				
Restricted Intergovernmental:				
USDA Grant	\$ 221,000	\$ -	\$ -	\$ -
USDA Loan	523,000	-	-	-
Total revenues	<u>744,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Capital outlay				
Engineering	500,500	12,500	16,770	29,270
Development	138,700	-	-	-
Other	104,800	-	-	-
Total expenditures	<u>744,000</u>	<u>12,500</u>	<u>16,770</u>	<u>29,270</u>
Revenues over (under) expenditures	<u>-</u>	<u>(12,500)</u>	<u>(16,770)</u>	<u>(29,270)</u>
Other Financing Sources (Uses):				
Transfer from Water and Sewer Fund	-	29,270	-	29,270
Total other financing sources (uses)	<u>-</u>	<u>29,270</u>	<u>-</u>	<u>29,270</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 16,770</u>	<u>(16,770)</u>	<u>\$ -</u>
Fund Balance:				
Beginning of year - July 1			<u>16,770</u>	
End of year - June 30			<u>\$ -</u>	

Other Schedules

This section includes additional information on property taxes.

- *Schedule of Ad Valorem Taxes Receivable*
- *Analysis of Current Tax Levy*

TOWN OF CARTHAGE, NORTH CAROLINA
SCHEDULE OF AD VALOREM TAXES RECEIVABLE
June 30, 2016

Exhibit C-1

Fiscal Year	Balance July 1, 2015	Additions	Collections and Credits	Balance June 30, 2016
2015-2016	\$ -	\$ 1,346,584	\$ 1,343,236	\$ 3,348
2014-2015	5,116	-	3,463	1,653
2013-2014	2,383	-	761	1,622
2012-2013	2,276	-	760	1,516
2011-2012	1,464	-	428	1,036
2010-2011	1,387	-	347	1,040
2009-2010	1,371	-	420	951
2008-2009	1,330	-	301	1,029
2007-2008	1,955	-	336	1,619
2006-2007	1,340	-	572	768
2005-2006	<u>1,090</u>	<u>-</u>	<u>1,090</u>	<u>-</u>
Total	\$ <u>19,712</u>	\$ <u>1,346,584</u>	\$ <u>1,351,714</u>	14,582
Less: allowance for uncollectible accounts				
General Fund				<u>(5,000)</u>
Ad valorem taxes receivable, net				
General Fund				<u>\$ 9,582</u>
Reconcilement with Revenues:				
Ad valorem taxes - General Fund				\$ 1,342,285
Reconciling Items:				
Amount written off per statute				1,063
Releases and adjustments				14,359
Interest and lien advertising collected				<u>(5,993)</u>
Total collections and credits				<u>\$ 1,351,714</u>

TOWN OF CARTHAGE, NORTH CAROLINA
ANALYSIS OF CURRENT TAX LEVY - TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2016

Exhibit C-2

	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	\$ 224,882,424	\$ 0.495	\$ 1,113,168	\$ 1,028,061	\$ 85,107
Fire tax	<u>293,405,000</u>	0.080	<u>234,724</u>	<u>211,252</u>	<u>23,472</u>
Total	<u>518,287,424</u>		<u>1,347,892</u>	<u>1,239,313</u>	<u>108,579</u>
Abatements	<u>(264,242)</u>	0.495	<u>(1,308)</u>	<u>(1,308)</u>	<u>-</u>
Total property valuation	<u>\$ 518,023,182</u>				
Net Levy			1,346,584	1,238,005	108,579
Uncollected taxes, June 30, 2016			<u>3,348</u>	<u>3,348</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 1,343,236</u>	<u>\$ 1,234,657</u>	<u>\$ 108,579</u>
Current Levy Collection Percentage			<u>99.75%</u>	<u>99.73%</u>	<u>100.00%</u>

COMPLIANCE SECTION

220 East Washington Street
Post Office Box 697
Rockingham, North Carolina 28380
(910) 895-2899

Other Office Locations:
Seven Lakes, North Carolina
Gastonia, North Carolina
Statesville, North Carolina

Report on Internal Control Over Financial Reporting and on Compliance
and Other Matters Based on an Audit of Financial Statements Performed in Accordance
with *Government Auditing Standards*

Independent Auditor's Report

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

We have audited, 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, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the Town of Carthage, North Carolina, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprises the Town of Carthage, North Carolina's basic financial statements, and have issued our report thereon dated December 23, 2016.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and response that we consider to be significant deficiencies. They are 2016-1 and 2016-2.

Compliance and other matters

As part of obtaining reasonable assurance about whether the Town of Carthage'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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Carthage's Response to Findings

The Town of Carthage's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. 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 results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Anderson Smith + Wike PLLC". The signature is written in a cursive, flowing style.

Rockingham, NC
December 23, 2016

Report on Compliance for Each Major Federal Program; Report on Internal Control Over Compliance; With OMB Uniform Guidance and the State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the compliance of Town of Carthage, North Carolina with the types of compliance requirements described in the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission that could have a direct and material effect on each of the Town of Carthage's major Federal programs for the year ended June 30, 2016. The Town of Carthage's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Town of Carthage'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 applicable sections of *Title 2 US Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)*, as described in the *Audit Manual for Governmental Auditors in North Carolina*, and the State Single Audit Implementation Act. Those standards, *Uniform Guidance*, 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. An audit includes examining, on a test basis, evidence about the Town of Carthage'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 on Town of Carthage's compliance.

Opinion on Each Major Federal Program

In our opinion, Town of Carthage 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, 2016.

Report on Internal Control Over Compliance

Management of Town of Carthage 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 Town of Carthage's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with *Uniform Guidance*, 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 Town of Carthage'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 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 a 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 material weaknesses or significant deficiencies. 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 *Uniform Guidance*. Accordingly, this report is not suitable for any other purpose



Rockingham, NC
December 23, 2016

TOWN OF CARTHAGE, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2016

Section I - Summary of Auditors' Results

Financial Statements

Type of auditor's report issued: *Unmodified*

Internal control over financial reporting:

- Material weakness(es) identified? *No*
- Significant deficiency(ies) identified that are not considered to be material weaknesses *Yes*

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 Noted*

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

Any audit findings disclosed that are required to be reported in accordance with State Single Audit Implementation Act *No*

Identification of major Federal program:

<u>CFDA Numbers</u>	<u>Names of Federal Program</u>
10.766	USDA Rural Development-Community Facilities Loans and Grants

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

Auditee qualified as low-risk auditee? *No*

State Awards

None

TOWN OF CARTHAGE, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Fiscal Year Ended June 30, 2016

Section II – Financial Statement Findings

Finding 2016-1

SIGNIFICANT DEFICIENCY
Preparation of Financial Statements

Criteria:	Management should have a system in place to reduce the likelihood of errors in financial reporting.
Condition:	Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and Governmental Accounting Standards Board requires a level of technical expertise not possessed by the Town's personnel with regards to drafting full accrual, full disclosure financial statements.
Effect:	Potential misstatement of financial statements.
Cause:	Insufficient accounting knowledge by Town personnel.
Recommendations:	The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears cost prohibitive. Therefore, the Town should exercise due care in reviewing the financial statements drafted by the external auditor as the Town is responsible for the accuracy of the audited financial statements.

Views of responsible officials and planned corrective actions: The Council agrees with this finding

Finding 2016-2

SIGNIFICANT DEFICIENCY
Segregation of Duties

Criteria:	Segregation of duties provides checks and balances to reduce possibilities for misstatements resulting from errors in judgment, dishonesty, personal carelessness, distraction and fatigue
Condition:	The Town has a limited number of personnel for accounting functions which creates inherent limitations on the effectiveness of certain controls due to the lack of segregation of duties among the Town's personnel.
Effect:	Potential misstatement of financial statements.
Cause:	The Town has a limited number of personnel for accounting functions which creates inherent limitations on the effectiveness of certain controls due to the lack of segregation of duties among the Town's personnel.
Recommendations:	The Board should continually keep in mind that internal controls are limited due to the size of the Town's staff.

Views of responsible officials and planned corrective actions: The Council agrees with this finding.

Section III – Federal Award Findings and Questioned Costs

None reported

Section IV – State Award Findings and Questioned Costs

None reported.

TOWN OF CARTHAGE, NORTH CAROLINA
CORRECTIVE ACTION PLAN
For the Fiscal Year Ended June 30, 2016

Finding 2016-1

Name of contact person:	Kesha Matthews Finance Director
Corrective Action:	Management is aware of the weakness but, due to the cost benefit analysis, they will continue to rely on the external auditor to draft the year-end financial statements.
Proposed Completion Date:	Not applicable.

Finding 2016-2

Name of contact person:	Kesha Matthews Finance Director
Corrective Action:	The Board should continually keep in mind that internal controls are limited due to the size of the Town's staff and monitor accordingly.
Proposed Completion Date:	Immediately.

TOWN OF CARTHAGE, NORTH CAROLINA
SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
For the Fiscal Year Ended June 30, 2016

Finding 2015-1

Status: Similar comment found in current year. See Finding 2016-1.

Finding 2015-2

Status: Corrected

Finding 2015-3

Status: Corrected

Finding 2015-4

Status: Similar comment found in current year. See Finding 2016-2.

Finding 2015-5

Status: Corrected

Finding 2015-6

Status: Corrected

TOWN OF CARTHAGE, NORTH CAROLINA
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2016

Grantor/Pass-through Grantor/Program title	Federal CFDA Number	State/ Pass-through Grantor's Number	Federal Direct & - Pass-through Expenditures	State Expenditures	Local Expenditures
Federal Awards:					
<u>U.S. Department of Agriculture</u>					
Water and Waste Program Cluster					
Direct Program:					
Water and Waste Disposal System for Rural Communities	10.766		1,750,674	-	-
<u>U.S. Department of Homeland Security</u>					
Passed through Federal Emergency Management Agency:					
SAFER Grant	97.083		99,003	-	-
Total assistance federal programs			1,849,677	-	-
State Awards:					
<u>N.C. Department of Transportation</u>					
Powell Bill			-	66,639	-
Total assistance state programs			-	66,639	-
Total assistance			\$ 1,849,677	\$ 66,639	\$ -

Note to the Schedule of Expenditures of Federal and State Financial Awards:

The accompanying schedule of expenditures of federal and State awards includes the federal and State grant activity of the Town of Carthage and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations and the State Single Audit Implementation Act*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.