

**TOWN OF CARTHAGE
NORTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2015

**MARTIN ♦ STARNES
& ASSOCIATES, CPAs, P.A.**

"A Professional Association of Certified Public Accountants and Management Consultants"

TOWN OF CARTHAGE, NORTH CAROLINA

AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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MARTIN ♦ STARNES & ASSOCIATES, CPAs, P.A.

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Independent Auditor's Report

To the Honorable Mayor and
Members of the Town Council
Town of Carthage
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, 2015, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Carthage, North Carolina, as of June 30, 2015, 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, and the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Asset and Contributions be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, 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 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 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 financial 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 U.S. Office of Management and Budget Circular A-133, *Audits of State and Local Governments, and Non-Profit Organizations*, and the State Single Audit Implementation Act are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The individual fund 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 relate directly to, the underlying accounting and other records used to prepare the 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 October 9, 2015 on our consideration of the Town of Carthage's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of 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 the Town of Carthage's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 9, 2015

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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, 2015. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

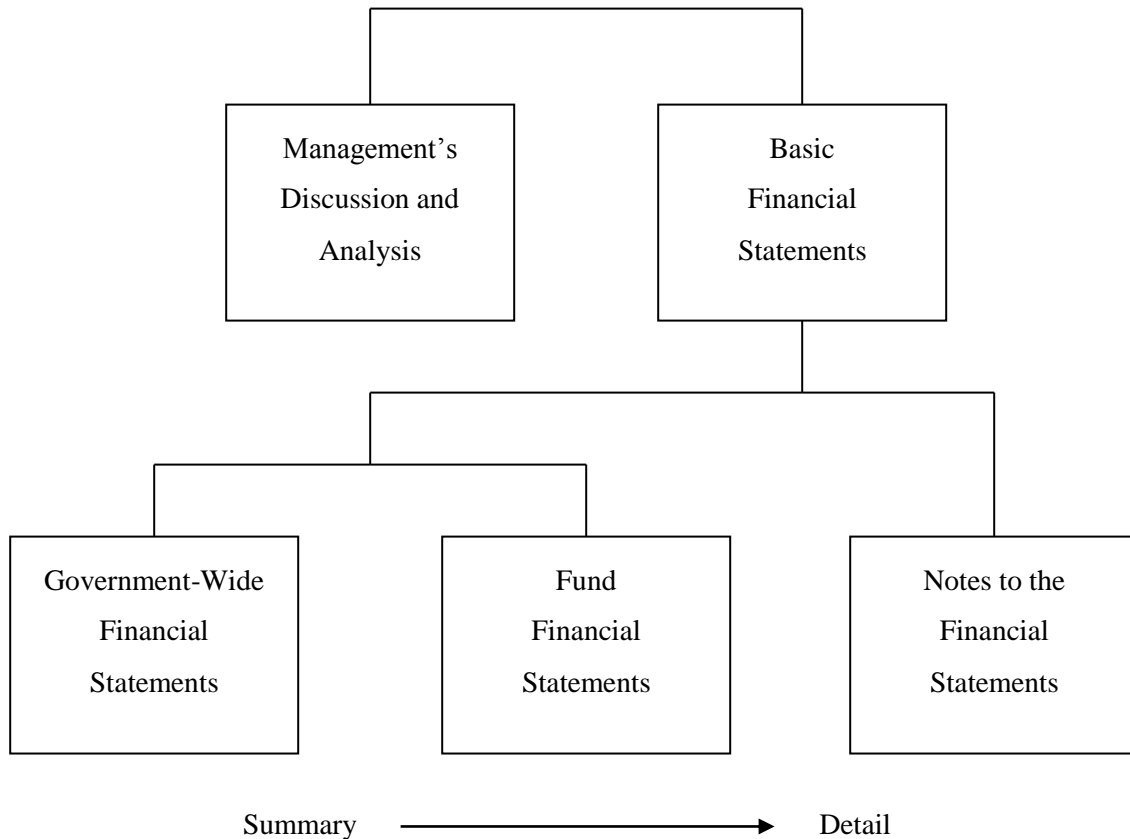
- The Town of Carthage's assets and deferred outflows of resources exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$8,743,753 (net position).
- The Town's total net position increased by \$377,101 with approximately 26 percent of the increase coming from governmental activities.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,356,093 with a net increase of \$189,849 in fund balance. Approximately 25 percent of this total amount, or \$340,388, is non-spendable or restricted.
- At the end of the current fiscal year, available fund balance for the General Fund was \$1,087,710, or 43.5 percent, of total General Fund expenditures and transfers to other funds for the year, less long-term debt issued.

Overview of the Financial Statements

This discussion and analysis is 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 (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Carthage.

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

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

The next statements (Exhibits C – I) 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, 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 nonmajor governmental funds, all of which are added together in one column on the basic financial statements. 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, in a manner similar to a private-sector business. The government-wide statements provide short and long-term information about the Town's financial status as a whole.

The *Statement of Net Position* presents information on all of the Town of Carthage's assets and liabilities and deferred inflows, with the difference between the two reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Town is improving or deteriorating.

The *Statement of Activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned, but unused, vacation leave).

Both of the government-wide financial statements distinguish functions of the Town that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Town include General Government, Public Safety, Public Works and Streets, Sanitation, and Culture and Recreation. The business-type activities of the Town of Carthage include Water and Sewer.

The government-wide financial statements are on Exhibits A and B of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town, like other State and local governments, uses fund accounting to ensure and reflect compliance with finance-related legal requirements. All of the funds of the Town can be divided into two categories: governmental funds and proprietary funds.

Governmental Funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Governmental funds are reported using an accounting method called *modified accrual accounting* which provides a short-term spending focus. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund Balance Sheet and the governmental fund Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

At year-end, the Town maintained two individual governmental funds. Information is presented separately in the governmental fund Balance Sheet and in the governmental fund Statement of Revenues and Expenditures for the General Fund and the Perpetual Care Fund, are the Town's governmental funds.

The Town adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the 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 and the Perpetual Care 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.

The basic governmental fund financial statements can be found on Exhibits C-F of this report.

Proprietary Funds. The Town of Carthage maintains one proprietary fund. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The Town uses enterprise funds to account for its water and sewer operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water and Sewer Fund. The Water and Sewer Fund is considered a major fund of the Town.

The basic proprietary fund financial statements can be found on Exhibits G-I of this report.

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 can be found after Exhibit I 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 following the Notes to the Financial Statements.

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

Government-Wide Financial Analysis

As noted earlier, net position may serve overtime as a useful indicator of a government's financial condition. The Town's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$8,743,753 at the close of the most recent fiscal year. The Town's net position increased by \$377,101 for the fiscal year ended June 30, 2015.

A portion of the Town's net position (82 percent) reflects its net investment in capital assets (e.g., land, buildings, machinery, and equipment) less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town's investment in its capital assets is reported net of the outstanding related debt, it should be noted that the resources needed to repay that debt must be provided from other sources since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position (4 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$1,149,989) may be used to meet the government's ongoing obligation to citizens and creditors. Also, the Town of Carthage implemented GASB Statement 68 this year. With the new reporting change, the Town is allocated its proportionate share of the Local Government Employees' Retirement System's net pension asset, deferred outflows of resources, deferred inflows of resources, and pension expense. A restatement to record the effects of the new reporting guidance decreased beginning net position by \$109,981. Decisions regarding the allocations are made by the administrators of the pension plan, not by the Town of Carthage's management.

Town of Carthage's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Assets:						
Current and other assets	\$ 1,491,870	\$ 1,300,255	\$ 398,848	\$ 585,918	\$ 1,890,718	\$ 1,886,173
Capital assets, net	<u>2,035,804</u>	<u>2,151,525</u>	<u>7,331,134</u>	<u>6,758,430</u>	<u>9,366,938</u>	<u>8,909,955</u>
Total assets	<u>3,527,674</u>	<u>3,451,780</u>	<u>7,729,982</u>	<u>7,344,348</u>	<u>11,257,656</u>	<u>10,796,128</u>
Deferred Outflows of Resources	<u>83,290</u>	<u>-</u>	<u>17,060</u>	<u>-</u>	<u>100,350</u>	<u>-</u>
Liabilities:						
Long-term liabilities, outstanding	845,987	864,623	1,167,185	22,881	2,013,172	887,504
Other liabilities	<u>192,731</u>	<u>255,355</u>	<u>125,478</u>	<u>1,176,636</u>	<u>318,209</u>	<u>1,431,991</u>
Total liabilities	<u>1,038,718</u>	<u>1,119,978</u>	<u>1,292,663</u>	<u>1,199,517</u>	<u>2,331,381</u>	<u>2,319,495</u>
Deferred Inflows of Resources	<u>234,784</u>	<u>-</u>	<u>48,088</u>	<u>-</u>	<u>282,872</u>	<u>-</u>
Net Position:						
Net investment in capital assets	1,091,876	1,222,112	6,117,872	5,794,472	7,209,748	7,016,584
Restricted	340,388	323,495	43,628	-	384,016	323,495
Unrestricted	<u>905,198</u>	<u>786,195</u>	<u>244,791</u>	<u>350,359</u>	<u>1,149,989</u>	<u>1,136,554</u>
Total net position	<u>\$ 2,337,462</u>	<u>\$ 2,331,802</u>	<u>\$ 6,406,291</u>	<u>\$ 6,144,831</u>	<u>\$ 8,743,753</u>	<u>\$ 8,476,633</u>

Town of Carthage's Changes in Net Position

Figure 3

	Governmental		Business-Type		Total	
	Activities		Activities			
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 152,156	\$ 133,591	\$ 1,220,440	\$ 1,128,234	\$ 1,372,596	\$ 1,261,825
Operating grants and contributions	261,727	267,512	-	-	261,727	267,512
Capital grants and contributions	-	-	440,621	-	440,621	-
General revenues:						
Property taxes	1,232,427	1,163,437	-	-	1,232,427	1,163,437
Other taxes	532,815	487,026	-	-	532,815	487,026
Other	394,451	284,341	392	307	394,843	284,648
Total revenues	<u>2,573,576</u>	<u>2,335,907</u>	<u>1,661,453</u>	<u>1,128,541</u>	<u>4,235,029</u>	<u>3,464,448</u>
Expenses:						
General government	776,593	587,966	-	-	776,593	587,966
Public safety	1,185,810	1,353,842	-	-	1,185,810	1,353,842
Streets and sanitation	462,818	507,918	-	-	462,818	507,918
Cultural and recreation	16,059	15,984	-	-	16,059	15,984
Interest on long-term debt	35,352	66,866	-	-	35,352	66,866
Water and sewer	-	-	1,381,296	1,540,014	1,381,296	1,540,014
Total expenses	<u>2,476,632</u>	<u>2,532,576</u>	<u>1,381,296</u>	<u>1,540,014</u>	<u>3,857,928</u>	<u>4,072,590</u>
Increase in net position before transfers	96,944	(196,669)	280,157	(411,473)	377,101	(608,142)
Transfers	<u>-</u>	<u>(120,000)</u>	<u>-</u>	<u>120,000</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>96,944</u>	<u>(316,669)</u>	<u>280,157</u>	<u>(291,473)</u>	<u>377,101</u>	<u>(608,142)</u>
Net Position:						
Beginning of year - July 1	2,331,802	2,613,769	6,144,831	6,436,304	8,476,633	9,050,073
Restatement	<u>(91,284)</u>	<u>34,702</u>	<u>(18,697)</u>	<u>-</u>	<u>(109,981)</u>	<u>34,702</u>
End of year - June 30	<u>\$ 2,337,462</u>	<u>\$ 2,331,802</u>	<u>\$ 6,406,291</u>	<u>\$ 6,144,831</u>	<u>\$ 8,743,753</u>	<u>\$ 8,476,633</u>

Governmental Activities. Governmental activities increased the Town's net position by \$96,944. Key elements of this increase are as follows:

- Revenues increased due to increase in Ad Valorem tax rate and from State revenue sources due to modest improvement in economic environment.
- Deliberate cost cutting measures in each department
- Department Heads were prudent with spending, requesting to spend only when absolutely necessary.
- Fewer appropriations from Fund Balance during the year.

Business-Type Activities. Business-type activities increased the Town of Carthage's net position by \$280,157. Key elements of this increase are as follows:

- Revenues increased due to increase in utility rates
- Deliberate cost cutting measures in each department
- Department Heads were prudent with spending, requesting to spend only when absolutely necessary
- Fewer costly pump station failures during the year.

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.

The General Fund is the chief operating fund of the Town of Carthage. At the end of the current fiscal year, available fund balance of the General Fund was \$1,087,710, and total fund balance was \$1,280,325. The Town currently has available fund balance of 43.5% of General Fund expenditures and transfers to other funds, less long-term debt issued, while total fund balance represents 51.3% of the same amount.

At June 30, 2015, the governmental funds of the Town of Carthage reported a combined fund balance of \$1,356,093, with a net increase in fund balance of \$189,849. Included in this change in fund balance are an increase in the General Fund of \$189,669 and an increase in the Perpetual Care Fund of \$180.

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 due to unanticipated increases in taxes, charges for services, and miscellaneous revenues. Expenditures were held in check to comply with its budgetary requirements.

Proprietary Funds. The Town of Carthage's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$244,791. The change in net position was an increase of \$280,157. Other factors concerning the finances of the fund 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, 2015, totals \$9,366,938 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities, and vehicles. Capital assets changed significantly during the year for the governmental funds. The majority of the increase in capital assets in the current year was due to the completion of the sewer interconnection project. This project added one new and two rebuilt sewer pump stations and added a new force main. In addition to the capital project, a new vehicle for the Fire Chief and two new service vehicles and a tractor for the Public Works Department were purchased. The Town also acquired the historic Tyson Jones Buggy Factory building.

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

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 304,650	\$ 304,650	\$ 124,787	\$ 124,787	\$ 429,437	\$ 429,437
Construction in progress	-	-	158,774	916,089	158,774	916,089
Building and improvements	950,777	939,938	1,329,083	1,379,192	2,279,860	2,319,130
Furniture and equipment	780,377	906,937	-	-	780,377	906,937
Machinery and equipment	-	-	1,297,958	1,240,757	1,297,958	1,240,757
Water and sewer improvements	-	-	4,420,532	3,097,605	4,420,532	3,097,605
Capital assets, net	<u>\$ 2,035,804</u>	<u>\$ 2,151,525</u>	<u>\$ 7,331,134</u>	<u>\$ 6,758,430</u>	<u>\$ 9,366,938</u>	<u>\$ 8,909,955</u>

Additional information on the Town's capital assets can be found in the notes of the financial statements.

Town of Carthage's Long-Term Debt

Figure 5

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
Capital lease obligations	\$ 52,716	\$ 102,519	\$ 7,393	\$ 14,328	\$ 60,109	\$ 116,847
Installment purchases	891,212	826,894	-	-	891,212	826,894
Bond anticipation note	-	-	-	1,056,000	-	1,056,000
Revenue bond	-	-	1,041,000	-	1,041,000	-
Notes payable	-	-	164,869	20,967	164,869	20,967
Total	\$ 943,928	\$ 929,413	\$ 1,213,262	\$ 1,091,295	\$ 2,157,190	\$ 2,020,708

The Town of Carthage's total debt increased by \$136,482 during the past fiscal year due to acquiring loans to purchase a vehicle for the Fire Chief and 2 service vehicles and a tractor for the Public Works Department.

North Carolina General Statutes limit the amount of general obligation debt that a unit of government can issue up to 8 percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Carthage is approximately \$45,760,000.

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

Economic Factors and Next Year's Budgets and Rates

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 are nearing completion of construction of Phase 3A; homes are being built, and beginning construction on Phase 3B, which consists of 38 lots. Construction on 13 new lots in the Savannah Garden subdivision are nearing completion. Developers are nearing completion of infrastructure of 6 lots in the new Hadley's Ridge subdivision. The preliminary plat and final plans on the Southbury subdivision, which will add 75 new lots, are soon to be approved. A new Bojangles' Restaurant was built and has opened in town. The Hardee's Restaurant has been torn down and in the process of rebuilding a larger restaurant, which is slated to open in January 2016. We continue to be contacted by developers interested in Carthage.

Plans for improvements to the Town's water treatment plant and distribution system and an upgrade to a sewer pumping station are being finalized and work to secure financing to begin the projects will begin soon.

Budget Highlights for the Fiscal Year Ending June 30, 2016

Governmental Activities. The Town's property tax rate was increased to \$.495 per \$100 valuation. The Town's tax base is estimated at \$215,700,000, a 3.69 % loss in valuation from the previous year. The \$.495 tax rate is projected to generate approximately \$972,595 in revenues. Tax revenues are estimated to be \$81,445, 9.14% more than Fiscal Year 2014-2015 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. Budgeted expenditures in the General Fund have been cut from the prior year.

Although there were cuts in some areas, budgeted expenditures in the General Fund will increase by \$3,287, 0.14% over Fiscal Year 2014-2015 budgeted expenses. This increase is due to a partial implementation of a new pay plan and inflationary increases in the cost of departmental operations.

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 continued growth in our customer base. General operating expenses are expected to decrease slightly due to reallocation of salaries.

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.

TOWN OF CARTHAGE, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2015

	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:			
Cash and cash equivalents	\$ 1,134,815	\$ 152,984	\$ 1,287,799
Receivables:			
Taxes receivable, net	12,617	-	12,617
Accounts receivable, net	192,680	161,385	354,065
Cash and cash equivalents - restricted	55,426	64,748	120,174
Net pension asset	96,332	19,731	116,063
Capital assets:			
Non-depreciable capital assets	304,650	283,561	588,211
Other capital assets, net of depreciation	1,731,154	7,047,573	8,778,727
Total assets	<u>3,527,674</u>	<u>7,729,982</u>	<u>11,257,656</u>
Deferred Outflows of Resources:			
Contributions to pension plan in current fiscal year	50,403	10,324	60,727
Pension deferrals	<u>32,887</u>	<u>6,736</u>	<u>39,623</u>
Total deferred outflows of resources	<u>83,290</u>	<u>17,060</u>	<u>100,350</u>
Liabilities:			
Accounts payable and accrued liabilities	26,828	44,491	71,319
Accrued interest payable	25,921	-	25,921
Current portion of compensated absences	23,000	6,000	29,000
Current portion of long-term debt	116,982	53,867	170,849
Liabilities to be paid from restricted assets:			
Customer deposits	-	21,120	21,120
Long-term liabilities:			
Non-current portion of long-term debt	826,946	1,159,395	1,986,341
Non-current portion of compensated absences	<u>19,041</u>	<u>7,790</u>	<u>26,831</u>
Total liabilities	<u>1,038,718</u>	<u>1,292,663</u>	<u>2,331,381</u>
Deferred Inflows of Resources:			
Pension deferrals	<u>234,784</u>	<u>48,088</u>	<u>282,872</u>
Total deferred inflows of resources	<u>234,784</u>	<u>48,088</u>	<u>282,872</u>
Net Position:			
Net investment in capital assets	1,091,876	6,117,872	7,209,748
Restricted for:			
Stabilization by State statute	192,615	-	192,615
Public safety	24,368	-	24,368
Streets	55,426	-	55,426
Cemetery perpetual maintenance	67,979	-	67,979
Rural development USDA loan	-	43,628	43,628
Unrestricted	<u>905,198</u>	<u>244,791</u>	<u>1,149,989</u>
Total net position	<u>\$ 2,337,462</u>	<u>\$ 6,406,291</u>	<u>\$ 8,743,753</u>

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

TOWN OF CARTHAGE, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

		Program Revenues		
		Charges for	Operating	Capital
	Expenses	Services	Grants and	Grants and
			Contributions	Contributions
Functions/Programs:				
Primary Government:				
Governmental Activities:				
General government	\$ 776,593	\$ -	\$ 75,739	\$ -
Public safety	1,185,810	-	185,988	-
Street and sanitation	462,818	152,156	-	-
Culture and recreation	16,059	-	-	-
Debt service - interest	35,352	-	-	-
Total governmental activities	<u>2,476,632</u>	<u>152,156</u>	<u>261,727</u>	<u>-</u>
Business-Type Activities:				
Water and sewer	1,381,296	1,220,440	-	440,621
Total business-type activities	<u>1,381,296</u>	<u>1,220,440</u>	<u>-</u>	<u>440,621</u>
Total primary government	<u>\$ 3,857,928</u>	<u>\$ 1,372,596</u>	<u>\$ 261,727</u>	<u>\$ 440,621</u>

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

TOWN OF CARTHAGE, NORTH CAROLINA

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

	Net (Expense) Revenue and Changes in Net Position		
	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Functions/Programs:			
Primary Government:			
Governmental Activities:			
General government	\$ (700,854)	\$ -	\$ (700,854)
Public safety	(999,822)	-	(999,822)
Street and sanitation	(310,662)	-	(310,662)
Culture and recreation	(16,059)	-	(16,059)
Debt service - interest	(35,352)	-	(35,352)
Total governmental activities	(2,062,749)	-	(2,062,749)
Business-Type Activities:			
Water and sewer	-	279,765	279,765
Total business-type activities	-	279,765	279,765
Total primary government	(2,062,749)	279,765	(1,782,984)
General Revenues:			
Ad valorem taxes	1,232,427	-	1,232,427
Other taxes and licenses	532,815	-	532,815
Unrestricted intergovernmental	198,743	-	198,743
Other general revenues	194,341	-	194,341
Investment earnings	1,367	392	1,759
Total general revenues and transfers	2,159,693	392	2,160,085
Change in net position	96,944	280,157	377,101
Net Position:			
Beginning of year - July 1	2,331,802	6,144,831	8,476,633
Restatement	(91,284)	(18,697)	(109,981)
Beginning of year - July 1, as restated	2,240,518	6,126,134	8,366,652
End of year - June 30	\$ 2,337,462	\$ 6,406,291	\$ 8,743,753

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

TOWN OF CARTHAGE, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2015

	Major General Fund	Nonmajor Perpetual Care Fund	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 1,059,112	\$ 75,703	\$ 1,134,815
Taxes receivable, net	12,617	-	12,617
Accounts receivable, net	91,097	63	91,160
Due from other governments	101,518	2	101,520
Restricted cash	55,426	-	55,426
Total assets	<u>\$ 1,319,770</u>	<u>\$ 75,768</u>	<u>\$ 1,395,538</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 26,828	\$ -	\$ 26,828
Total liabilities	<u>26,828</u>	<u>-</u>	<u>26,828</u>
Deferred Inflows of Resources:			
Property taxes receivable	12,617	-	12,617
Total deferred inflows of resources	<u>12,617</u>	<u>-</u>	<u>12,617</u>
Fund Balances:			
Non-spendable, not in spendable form:			
Perpetual maintenance	-	67,979	67,979
Restricted:			
Stabilization by State statute	192,615	-	192,615
Streets	55,426	-	55,426
Public safety	24,368	-	24,368
Assigned:			
Perpetual care	-	7,789	7,789
Unassigned	1,007,916	-	1,007,916
Total fund balances	<u>1,280,325</u>	<u>75,768</u>	<u>1,356,093</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,319,770</u>	<u>\$ 75,768</u>	
Amounts reported for governmental activities in the Statement of Net Position are different because:			
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.			2,035,804
Net pension asset			96,332
Contributions to the pension plan in the current fiscal year are deferred outflows of resources on the Statement of Net Position			50,403
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.			(1,011,890)
Pension related deferrals			(201,897)
Liabilities for earned revenues considered deferred inflows of resources in fund statements.			<u>12,617</u>
Net position of governmental activities			<u>\$ 2,337,462</u>

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

TOWN OF CARTHAGE, NORTH CAROLINA

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2015**

	Major	Nonmajor	
	General	Perpetual Care	
	Fund	Fund	Total
Revenues:			
Ad valorem taxes	\$ 1,239,307	\$ -	\$ 1,239,307
Other taxes and licenses	532,815	-	532,815
Unrestricted intergovernmental	198,743	-	198,743
Restricted intergovernmental	261,727	-	261,727
Sales and services	152,156	-	152,156
Investment earnings	1,187	180	1,367
Miscellaneous	194,341	-	194,341
Total revenues	<u>2,580,276</u>	<u>180</u>	<u>2,580,456</u>
Expenditures:			
Current:			
General government	778,235	-	778,235
Public safety	1,100,227	-	1,100,227
Street and sanitation	467,626	-	467,626
Culture and recreation	16,059	-	16,059
Debt service:			
Principal	93,085	-	93,085
Interest	42,975	-	42,975
Total expenditures	<u>2,498,207</u>	<u>-</u>	<u>2,498,207</u>
Revenues over (under) expenditures	82,069	180	82,249
Other Financing Sources (Uses):			
Issuance of long-term debt	107,600	-	107,600
Total other financing sources (uses)	<u>107,600</u>	<u>-</u>	<u>107,600</u>
Net change in fund balances	189,669	180	189,849
Fund Balances:			
Beginning of year - July 1	<u>1,090,656</u>	<u>75,588</u>	<u>1,166,244</u>
End of year - June 30	<u>\$ 1,280,325</u>	<u>\$ 75,768</u>	<u>\$ 1,356,093</u>

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

TOWN OF CARTHAGE, NORTH CAROLINA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

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

Net change in fund balances - total governmental funds (Exhibit D)	\$ 189,849
Property tax revenues in the governmental funds statement that were actually earned are reflected as revenues in the prior periods on the Statement of Activities.	(6,880)
Expenses related to compensated absences and pension expense that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(13,815)
Capital outlays are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, capital outlay is not an expense, rather it is an increase in capital assets.	78,554
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(190,004)
Loss on the disposal of capital assets during the year, not recognized on the modified accrual basis.	(4,271)
Contributions to the pension plan in the current fiscal year are not included on the Statement of Activities.	50,403
Principal repayments are reported as expenditures in the governmental funds statement. However, in the Statement of Activities, these transactions are not an expense, rather they are a decrease in liabilities.	93,085
Accrued interest payable is not shown on the governmental funds statement; however, in the Statement of Activities, the change in accrued interest is reflected.	7,623
Proceeds from issuance of debt are reported as revenues in the governmental funds statement. However, in the Statement of Activities, they are not a revenue, rather they are an increase in liabilities.	<u>(107,600)</u>
Change in net position of governmental activities (Exhibit B)	<u>\$ 96,944</u>

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

TOWN OF CARTHAGE, NORTH CAROLINA

GENERAL FUND

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES

IN FUND BALANCE - BUDGET AND ACTUAL

FOR THE YEAR ENDED JUNE 30, 2015

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget
				Over/Under
Revenues:				
Ad valorem taxes	\$ 1,203,934	\$ 1,203,934	\$ 1,239,307	\$ 35,373
Other taxes and licenses	498,180	498,180	532,815	34,635
Unrestricted intergovernmental	154,550	154,550	198,743	44,193
Restricted intergovernmental	262,200	276,262	261,727	(14,535)
Sales and services	156,750	156,750	152,156	(4,594)
Investment earnings	2,000	2,000	1,187	(813)
Miscellaneous	87,939	193,260	194,341	1,081
Total revenues	<u>2,365,553</u>	<u>2,484,936</u>	<u>2,580,276</u>	<u>95,340</u>
Expenditures:				
Current:				
General government	556,999	770,688	778,235	(7,547)
Public safety	1,158,238	1,186,407	1,100,227	86,180
Street and sanitation	521,997	493,842	467,626	26,216
Cultural and recreation	19,680	19,500	16,059	3,441
Debt service:				
Principal	104,248	124,914	93,085	31,829
Interest	43,000	43,000	42,975	25
Total expenditures	<u>2,404,162</u>	<u>2,638,351</u>	<u>2,498,207</u>	<u>140,144</u>
Revenues over (under) expenditures	<u>(38,609)</u>	<u>(153,415)</u>	<u>82,069</u>	<u>235,484</u>
Other Financing Sources (Uses):				
Issuance of long-term debt	-	31,600	107,600	76,000
Fund balance appropriated	<u>38,609</u>	<u>121,815</u>	<u>-</u>	<u>(121,815)</u>
Total other financing sources (uses)	<u>38,609</u>	<u>153,415</u>	<u>107,600</u>	<u>(45,815)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>189,669</u>	<u>\$ 189,669</u>
Fund Balance:				
Beginning of year - July 1			<u>1,090,656</u>	
End of year - June 30			<u>\$ 1,280,325</u>	

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

TOWN OF CARTHAGE, NORTH CAROLINA

STATEMENT OF FUND NET POSITION
PROPRIETARY FUND
JUNE 30, 2015

	Water and Sewer Fund
Assets:	
Current assets:	
Cash and investments	\$ 152,984
Customer receivables, net	153,200
Receivables, other	322
Due from other governments	7,863
Restricted cash and investments	64,748
Total current assets	<u>379,117</u>
Non-current assets:	
Net pension asset	19,731
Land and construction in progress	283,561
Other capital assets, net of depreciation	7,047,573
Total non-current assets	<u>7,350,865</u>
Total assets	<u>7,729,982</u>
Deferred Outflows of Resources:	
Contributions to pension plan in current fiscal year	10,324
Pension deferrals	6,736
Total deferred outflows of resources	<u>17,060</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	44,491
Current portion of compensated absences	6,000
Current portion of long-term debt	53,867
Liabilities to be paid from restricted assets:	
Customer deposits	21,120
Total current liabilities	<u>125,478</u>
Non-current liabilities:	
Non-current portion of long-term debt	1,159,395
Compensated absences	7,790
Total non-current liabilities	<u>1,167,185</u>
Total liabilities	<u>1,292,663</u>
Deferred Inflows of Resources:	
Pension deferrals	<u>48,088</u>
Net Position:	
Net investment in capital assets	6,117,872
Restricted for rural development USDA loan	43,628
Unrestricted	<u>244,791</u>
Total net position	<u>\$ 6,406,291</u>

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

TOWN OF CARTHAGE, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
FUND NET POSITION - PROPRIETARY FUND
FOR THE YEAR ENDED JUNE 30, 2015

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for sales and services	\$ 1,172,909
Other operating revenue	47,531
Total operating revenues	<u>1,220,440</u>
Operating Expenses:	
Administration	105,955
Water operations	485,931
Sewer operations	448,107
Depreciation	305,762
Total operating expenses	<u>1,345,755</u>
Operating income (loss)	<u>(125,315)</u>
Non-Operating Revenues (Expenses):	
Interest and fees paid	(35,541)
Investment earnings	392
Capital contributions - federal grant	440,621
Total non-operating revenues (expenses)	<u>405,472</u>
Change in net position	<u>280,157</u>
Net Position:	
Beginning of year - July 1	6,144,831
Restatement	(18,697)
Beginning of year - July 1, as restated	<u>6,126,134</u>
End of year - June 30	<u>\$ 6,406,291</u>

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

TOWN OF CARTHAGE, NORTH CAROLINA

STATEMENT OF CASH FLOWS

PROPRIETARY FUND

FOR THE YEAR ENDED JUNE 30, 2015

	Water and Sewer Fund
Cash Flows from Operating Activities:	
Cash received from customers	\$ 1,275,581
Cash paid for goods and services	(941,609)
Cash paid to employees for services	(134,464)
Customer deposits	(141)
Net cash provided (used) by operating activities	<u>199,367</u>
Cash Flows from Capital and Related Financing Activities:	
Capital contributions - federal grant	440,621
Proceeds from long-term debt	1,220,869
Principal paid on long-term debt	(1,098,902)
Interest paid on long-term debt	(35,541)
Acquisition and construction of capital assets	<u>(878,466)</u>
Net cash provided (used) by capital and related financing activities	<u>(351,419)</u>
Cash Flows from Investing Activities:	
Investment earnings	<u>392</u>
Net increase (decrease) in cash and cash equivalents	(151,660)
Cash and cash equivalents - July 1	<u>369,392</u>
Cash and cash equivalents - June 30	<u><u>\$ 217,732</u></u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (125,315)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	305,762
Pension expense	2,924
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	55,141
(Increase) decrease in deferred outflows of resources for pensions	(10,324)
Increase (decrease) in accounts payable and accrued liabilities	(28,680)
Increase (decrease) in customer deposits	<u>(141)</u>
Net cash provided (used) by operating activities	<u><u>\$ 199,367</u></u>

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

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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.

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

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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.

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 and Sewer Fund. The Water and Sewer Fund includes the accounts of the Water and Sewer Operations Fund, Capital Reserve Fund, and the Water and Sewer Capital Project Fund. This fund is used to account for the Town's water and sewer operations. The Capital Reserve Fund is funded through transfers from the Water and Sewer Operations Fund and is used to accumulate resources for future capital needs. The Water and Sewer Capital Project Fund is funded through debt, transfers, and grants and is used to improve the Town's water and sewer system.

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.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 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, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013, and for limited registration plates are shown as a receivable in these financial statements and are offset by deferred inflows of resources.

Sales taxes and certain intergovernmental revenues, such as the utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town of 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.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 Fund, and the Capital Reserve Fund. All annual appropriations lapse at the fiscal year-end. A project ordinance is adopted for the Water and Sewer Capital Project Fund. The Water and Sewer Capital Project Fund is consolidated with the respective operating fund for reporting purposes. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional 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.

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.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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	\$ 55,426
Total governmental activities	<u>55,426</u>

Business-Type Activities:

Water and Sewer Fund	
Customer deposits	21,120
Debt service reserve	<u>43,628</u>
Total business-type activities	<u>64,748</u>

Total restricted cash	<u>\$ 120,174</u>
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Ad Valorem Taxes Receivable

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

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 and Sewer Fund</u>
Taxes receivable	\$ 7,095	\$ -
Water and sewer receivable	-	5,381
Total	<u>\$ 7,095</u>	<u>\$ 5,381</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

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. The 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 2015 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.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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.

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/debt 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 has not officially adopted a fund balance policy.

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	\$ 1,280,325
Less:	
Stabilization by State statute	<u>192,615</u>
Total available fund balance	<u><u>\$ 1,087,710</u></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.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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.

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.

2. Stewardship, Compliance, and Accountability

During the fiscal year 2015, the Town was not in compliance with North Carolina G.S. 159-28(a). State law requires the Finance Officer, or any Deputy Finance Officer, to approve the necessary disbursements. Part-time firefighters and new law enforcement officers were receiving pay without salary rate information documented in the personnel file. No rate documentation was included and stamped with the preapproval language and signature.

Town management will ensure all disbursements made will be pre-audited by the Finance Officer prior to disbursement. All payroll changes will be preaudited and documented on the Personnel Action Form.

3. Detail Notes on All Funds

A. Assets

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

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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, 2015, the Town's deposits had a carrying amount of \$1,306,208 and a bank balance of \$1,326,207. Of the bank balance, \$775,337 was covered by federal depository insurance, and \$550,870 was covered by collateral held under the Pooling Method. At June 30, 2015, the Town's petty cash fund totaled \$500.

Investments

At June 30, 2015, the Town of Carthage had \$101,265 invested with the North Carolina Capital Management Trust's Capital Portfolio which carried a credit rating of AAAM by Standard and Poor's. The Town has no policy regarding credit risk.

Accounts Receivable

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

	Governmental Activities	Business-Type Activities	Total
Garbage fee	\$ 20,773	\$ -	\$ 20,773
Due from other governments	101,520	7,863	109,383
Customer receivables	-	153,200	153,200
Other	70,387	322	70,709
Total	<u>\$ 192,680</u>	<u>\$ 161,385</u>	<u>\$ 354,065</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Capital Assets

Primary Government

Capital asset activity for governmental activities for the year ended June 30, 2015, was as follows:

	<u>Balance July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2015</u>
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 304,650	\$ -	\$ -	\$ 304,650
Total non-depreciable capital assets	<u>304,650</u>	<u>-</u>	<u>-</u>	<u>304,650</u>
Depreciable Capital Assets:				
Buildings and improvements	1,387,476	46,000	-	1,433,476
Furniture and equipment	<u>2,567,178</u>	<u>32,554</u>	<u>46,904</u>	<u>2,552,828</u>
Total depreciable capital assets	<u>3,954,654</u>	<u>78,554</u>	<u>46,904</u>	<u>3,986,304</u>
Less Accumulated Depreciation:				
Buildings and improvements	447,538	35,161	-	482,699
Furniture and equipment	<u>1,660,241</u>	<u>154,843</u>	<u>42,633</u>	<u>1,772,451</u>
Total accumulated depreciation	<u>2,107,779</u>	<u>\$ 190,004</u>	<u>\$ 42,633</u>	<u>2,255,150</u>
Total depreciable capital assets, net	<u>1,846,875</u>			<u>1,731,154</u>
Governmental activity capital assets, net	<u>\$ 2,151,525</u>			<u>\$ 2,035,804</u>

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

General government	\$ 47,070
Public safety	<u>142,934</u>
Total depreciation expense	<u>\$ 190,004</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Proprietary Capital Assets

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

	<u>Balance</u> <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance</u> <u>June 30, 2015</u>
Business-Type Activities:					
Water and Sewer Fund:					
Non-Depreciable Capital Assets:					
Land	\$ 124,787	\$ -	\$ -	\$ -	\$ 124,787
Construction in progress	916,089	703,228	-	(1,460,543)	158,774
Total non-depreciable capital assets	<u>1,040,876</u>	<u>703,228</u>	<u>-</u>	<u>(1,460,543)</u>	<u>283,561</u>
Depreciable Capital Assets:					
Buildings	2,095,691	-	-	-	2,095,691
Machinery and equipment	2,380,122	175,238	41,340	-	2,514,020
Water and sewer improvements	5,565,311	-	-	1,460,543	7,025,854
Total depreciable capital assets	<u>10,041,124</u>	<u>175,238</u>	<u>41,340</u>	<u>1,460,543</u>	<u>11,635,565</u>
Less Accumulated Depreciation:					
Buildings	716,499	50,109	-	-	766,608
Machinery and equipment	1,139,365	118,037	41,340	-	1,216,062
Water and sewer improvements	2,467,706	137,616	-	-	2,605,322
Total accumulated depreciation	<u>4,323,570</u>	<u>\$ 305,762</u>	<u>\$ 41,340</u>	<u>\$ -</u>	<u>4,587,992</u>
Total depreciable capital assets, net	<u>5,717,554</u>				<u>7,047,573</u>
Business-type activities capital assets, net	<u>\$ 6,758,430</u>				<u>\$ 7,331,134</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Net Investment In Capital Assets

The total net investment in capital assets, at June 30, 2015, is composed of the following elements:

	Governmental Activities	Business-Type Activities
Capital assets	\$ 2,035,804	\$ 7,331,134
Long-term debt related to capital assets	(943,928)	(1,213,262)
Net investment in capital assets	<u>\$ 1,091,876</u>	<u>\$ 6,117,872</u>

Accounts Payable and Accrued Liabilities

Payables at June 30, 2015, were as follows:

	Vendors	Salaries and Benefits	Total
Governmental Activities:			
General	<u>\$ 9,700</u>	<u>\$ 17,128</u>	<u>\$ 26,828</u>
Business-Type Activities:			
Water and sewer	<u>\$ 33,912</u>	<u>\$ 10,579</u>	<u>\$ 44,491</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 FOR THE YEAR ENDED JUNE 30, 2015

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, 2015, was 7.41% of compensation for law enforcement officers and 7.07% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Carthage were \$60,727 for the year ended June 30, 2015.

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

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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

At June 30, 2015, the Town reported an asset of \$116,063 for its proportionate share of the net pension asset. The net pension asset was measured as of June 30, 2014. The total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of December 31, 2013. The total pension liability was then rolled forward to the measurement date of June 30, 2014 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension asset was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2014, the Town's proportion was 0.01968%, which was a decrease of 0.00528% from its proportion measured as of June 30, 2013.

For the year ended June 30, 2015, the Town recognized pension expense of \$17,207. At June 30, 2015, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 12,682
Net difference between projected and actual earnings on pension plan investments	-	270,190
Changes in proportion and differences between Town contributions and proportionate share of contributions	39,623	-
Town contributions subsequent to the measurement date	60,727	-
Total	<u>\$ 100,350</u>	<u>\$ 282,872</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

\$60,727 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>
2016	\$ (60,796)
2017	(60,796)
2018	(60,796)
2019	<u>(60,861)</u>
Total	<u>\$ (243,249)</u>

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

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

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

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

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2014 are summarized in the following table:

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

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

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

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

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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

	1% Decrease (6.25%)	Discount Rate (7.25%)	1% Increase (8.25%)
Town's proportionate share of the net pension liability (asset)	<u>\$ 393,965</u>	<u>\$ (116,062)</u>	<u>\$ (545,488)</u>

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, 2014, the Separation Allowance membership consisted of:

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

A separate report was not issued for the plan.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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.

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.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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, 2015, were \$21,357, which consisted of \$15,667 from the Town and \$5,690 from the law enforcement officers.

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.

Capital Leases

The Town has entered into agreements to lease certain equipment. The lease agreements qualify as capital leases for accounting purposes and, therefore have been recorded at the present value of the future minimum lease payments as of the date of inception.

Governmental Activities:

The lease agreement was executed on July 31, 2012, with Ford Motor Credit with an original issue amount of \$205,369, to lease fleet vehicles for the police department and requires four (4) annual payments of \$55,800 including interest at 5.85%. The balance of this lease at June 30, 2015 was \$52,716.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Business-type Activities:

The second lease agreement was executed on September 13, 2012, with Ford Motor Credit with an original issue amount of \$28,715 to lease a 2013 Ford F-150 for water and sewer operations and requires four (4) annual payments of \$7,881 including interest at 6.60%. The balance of this lease at June 30, 2015 was \$7,393.

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Water and Sewer Fund</u>
Asset:		
Vehicles	\$ 205,369	\$ 28,715
Less: accumulated depreciation	<u>(116,135)</u>	<u>(15,559)</u>
Net book value	<u><u>\$ 89,234</u></u>	<u><u>\$ 13,156</u></u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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:

Installment purchased originally issued on January 2, 2002, for \$630,000, due in annual payments of \$35,469, including interest at 4.75%, payable to the USDA.	\$ 533,382
--	------------

Installment purchase originally issued on May 2, 2007, for \$350,000, due in annual payments of \$26,040, including interest at 4.125%, payable to the USDA.	242,619
--	---------

Installment purchase originally issued on November 18, 2011 for \$42,291, due in annual payments of \$8,978, including interest at 2.13%.	17,397
---	--------

Installment purchase originally issued on March 25, 2015 for \$30,000, due in annual payments of \$4,725, including interest at 2.50%.	30,000
--	--------

Installment purchase originally issued on February 27, 2015 for \$46,000, due in annual payments of \$5,286, as well as \$4,500 payable upon execution of agreement, and \$4,500 payable no later than one year from the execution of the agreement, interest-free.	36,214
---	--------

Installment purchase originally issued on December 4, 2014 for \$31,600, due in annual payments of \$15,992, including interest at 0.80%.	<u>31,600</u>
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Total installment purchases	<u>\$ 891,212</u>
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TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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 payments of \$19,263, including interest at 3.50%. \$ 87,869

Note payable originally issued on September 18, 2014, for
\$77,000, due in annual payments of \$17,100, including interest at
3.50%. 77,000

Total notes payable \$ 164,869

Revenue Bonds

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

Business-Type Activities:

Revenue bond originally issued on November 18, 2014, for
\$1,056,000, due in varying annual payments, including interest at
2.75%, payable to USDA \$ 1,041,000

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

The Town is 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, 2015, is as follows:

Operating revenues	\$ 1,220,440
Operating expenses*	<u>1,039,993</u>
Operating income	180,447
Nonoperating revenues (expenses)**	<u>402,722</u>
Income available for debt service	<u>\$ 583,169</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>30,515</u>
Debt service ratio	1911%

Net revenues must be no less than 100% of the amount necessary to pay annual debt services 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 \$305,762.

**Per rate covenants, this does not include revenue bond interest paid of \$15,515.

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 \$1,041,000. Principal and interest paid for the current year and total customer net revenues were \$15,000 and \$15,515, respectively.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Long-Term Obligation Activity

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

	<u>Balance</u> <u>July 1, 2014</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Current</u> <u>Portion</u>
Governmental Activities:					
Capital lease obligations	\$ 102,519	\$ -	\$ 49,803	\$ 52,716	\$ 52,716
Installment purchases	826,894	107,600	43,282	891,212	64,266
Net pension liability (LGERS)	144,067	-	144,067	-	-
Compensated absences	42,507	22,051	22,517	42,041	23,000
Total governmental activities	<u>\$ 1,115,987</u>	<u>\$ 129,651</u>	<u>\$ 259,669</u>	<u>\$ 985,969</u>	<u>\$ 139,982</u>
Business-Type Activities:					
Capital lease obligations	\$ 14,328	\$ -	\$ 6,935	\$ 7,393	\$ 7,393
Notes payable	20,967	164,869	20,967	164,869	31,474
Bond anticipation note	1,056,000	-	1,056,000	-	-
Revenue bond	-	1,056,000	15,000	1,041,000	15,000
Net pension liability (LGERS)	29,508	-	29,508	-	-
Compensated absences	16,488	3,586	6,284	13,790	6,000
Total business-type activities	<u>\$ 1,137,291</u>	<u>\$ 1,224,455</u>	<u>\$ 1,134,694</u>	<u>\$ 1,227,052</u>	<u>\$ 59,867</u>

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

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, 2015, amounts to approximately \$45,760,000.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Long-Term Obligation Annual Requirements

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

Governmental Activities:	Capitalized Leases		Installment Purchases		Revenue Bond		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2016	\$ 52,716	\$ 3,084	\$ 64,266	\$ 36,721	\$ -	\$ -	\$ 116,982	\$ 39,805
2017	-	-	61,319	35,168	-	-	61,319	35,168
2018	-	-	37,960	33,557	-	-	37,960	33,557
2019	-	-	39,309	32,208	-	-	39,309	32,208
2020	-	-	40,716	30,801	-	-	40,716	30,801
2021-2025	-	-	191,189	131,079	-	-	191,189	131,079
2026-2030	-	-	137,622	91,792	-	-	137,622	91,792
2031-2035	-	-	111,735	65,600	-	-	111,735	65,600
2036-2040	-	-	140,915	36,419	-	-	140,915	36,419
2041-2043	-	-	66,181	4,752	-	-	66,181	4,752
Total	<u>\$ 52,716</u>	<u>\$ 3,084</u>	<u>\$ 891,212</u>	<u>\$ 498,097</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 943,928</u>	<u>\$ 501,181</u>

Business-Type

Activities:									
2016	\$ 7,393	\$ 488	\$ 31,474	\$ 4,889	\$ 15,000	\$ 28,628	\$ 53,867	\$ 34,005	
2017	-	-	31,616	4,747	16,000	28,215	47,616	32,962	
2018	-	-	32,751	3,612	16,000	27,775	48,751	31,387	
2019	-	-	33,913	2,450	17,000	27,335	50,913	29,785	
2020	-	-	35,115	1,246	17,000	26,868	52,115	28,114	
2021-2025	-	-	-	-	91,000	127,133	91,000	127,133	
2026-2030	-	-	-	-	106,000	113,795	106,000	113,795	
2031-2035	-	-	-	-	122,000	98,395	122,000	98,395	
2036-2040	-	-	-	-	138,000	80,740	138,000	80,740	
2041-2045	-	-	-	-	159,000	60,637	159,000	60,637	
2046-2050	-	-	-	-	180,000	37,675	180,000	37,675	
2051-2054	-	-	-	-	164,000	11,467	164,000	11,467	
Total	<u>\$ 7,393</u>	<u>\$ 488</u>	<u>\$ 164,869</u>	<u>\$ 16,944</u>	<u>\$ 1,041,000</u>	<u>\$ 668,663</u>	<u>\$ 1,213,262</u>	<u>\$ 686,095</u>	

Deferred Outflows and Inflows of Resources

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

Source	Amount
Contributions to pension plan in current fiscal year	\$ 60,727
Pension deferrals	39,623
	<u>\$ 100,350</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

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

Taxes receivable	\$ 12,617
Pension deferrals	282,872

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, 2014 – June 30, 2015 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.

Claims, Judgments, and Contingent Liabilities

At June 30, 2015, 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.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Change in Accounting Principles/Restatement

The Town implemented Governmental Accounting Standards Board (GASB) Statement 68, Accounting and Financial Reporting for Pensions (an amendment of GASB Statement No. 27), in the fiscal year ending June 30, 2015. The implementation of the statement required the Town to record beginning net pension liability and the effects on net position of contributions made by the Town during the measurement period (fiscal year ending June 30, 2014). As a result, net position for the governmental and business-type activities decreased by \$91,284 and \$18,697, respectively.

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TOWN OF CARTHAGE, NORTH CAROLINA

**TOWN OF CARTHAGE'S PROPORTIONATE SHARE
OF NET PENSION LIABILITY (ASSET)
REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2015**

Local Government Employees' Retirement System

	<u>2015</u>	<u>2014</u>
Carthage's proportion of the net pension liability (asset) (%)	0.01968%	0.01440%
Carthage's proportion of the net pension liability (asset) (\$)	\$ (116,063)	\$ 173,575
Carthage's covered-employee payroll	\$ 889,102	\$ 778,704
Carthage's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	(13.05%)	22.29%
Plan fiduciary net position as a percentage of the total pension liability**	102.64%	94.35%

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

** This will be the same percentage for all 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**

	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 60,727	\$ 63,595
Contributions in relation to the contractually required contribution	<u>60,727</u>	<u>63,595</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>
Carthage's covered-employee payroll	\$ 843,993	\$ 889,102
Contributions as a percentage of covered-employee payroll	7.11%	7.14%

TOWN OF CARTHAGE, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Ad Valorem Taxes:			
Taxes		\$ 1,233,117	
Penalties		6,190	
Total	\$ 1,203,934	1,239,307	\$ 35,373
Other Taxes and Licenses:			
Local option sales taxes		520,124	
Privilege licenses		1,860	
Motor vehicle license		10,166	
Rental tax revenue		665	
Total	498,180	532,815	34,635
Unrestricted Intergovernmental Revenues:			
Beer and wine tax		10,865	
Utility franchise tax		182,558	
Other		5,320	
Total	154,550	198,743	44,193
Restricted Intergovernmental Revenues:			
Powell Bill		75,739	
Fire/safety - Carthage Rescue Squad		39,500	
Other		146,488	
Total	276,262	261,727	(14,535)
Sales and Services:			
Sanitary landfill participation fees	156,750	152,156	(4,594)
Investment Earnings	2,000	1,187	(813)
Miscellaneous:			
Court costs and fees		4,566	
Cable vision fees		2,752	
Utility leases		58,165	
Miscellaneous		49,772	
Moore County ABC revenue		1,931	
Police forfeitures		926	
Administrative charge - Fire District		12,000	
Donations		9,011	

TOWN OF CARTHAGE, NORTH CAROLINA

GENERAL FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015**

	Budget	Actual	Variance Over/Under
Insurance proceeds		46,530	
Historical proceeds		684	
Cemeteries		2,500	
Appearance Committee		1,754	
Rent		3,750	
Total	193,260	194,341	1,081
Total revenues	2,484,936	2,580,276	95,340
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits		9,527	
Operating expenditures		2,848	
Total	13,150	12,375	775
Administration:			
Salaries and employee benefits		139,280	
Operating expenditures		177,113	
Total	327,283	316,393	10,890
Finance:			
Salaries and employee benefits		68,546	
Operating expenditures		3,140	
Total	71,595	71,686	(91)
Legal:			
Contracted services	42,650	38,496	4,154
Planning and zoning:			
Salaries and employee benefits		15,841	
Operating expenditures		36,650	
Total	51,169	52,491	(1,322)
Public Buildings:			
Operating expenditures		237,912	
Total	262,153	283,912	(21,759)

TOWN OF CARTHAGE, NORTH CAROLINA**GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015**

	Budget	Actual	Variance Over/Under
Appearance:			
Operating expenditures		2,882	
Total	2,688	2,882	(194)
Total general government	770,688	778,235	(7,547)
Public Safety:			
Police:			
Salaries and employee benefits		522,373	
Vehicle maintenance		20,315	
Operating expenditures		60,657	
Capital outlay		13,137	
Total	712,072	616,482	95,590
Fire:			
Salaries and employee benefits		304,693	
Vehicle maintenance		34,000	
Operating expenditures		67,899	
Capital outlay		77,153	
Total	474,335	483,745	(9,410)
Total public safety	1,186,407	1,100,227	86,180
Street and Sanitation:			
Street and Highways:			
Salaries and employee benefits		134,260	
Vehicle maintenance		6,952	
Street lights		70,853	
Contracted services		8,444	
Operating expenditures		21,499	
Total	259,007	242,008	16,999
Powell Bill:			
Salaries and employee benefits		26,117	
Operating expenditures		38,500	
Total	77,100	64,617	12,483

TOWN OF CARTHAGE, NORTH CAROLINA

**GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Sanitation:			
Contracted services		159,970	
Operating expenditures		1,031	
Total	<u>157,735</u>	<u>161,001</u>	<u>(3,266)</u>
Total street and sanitation	<u>493,842</u>	<u>467,626</u>	<u>26,216</u>
Cultural and Recreation:			
Parks and Recreation:			
Operating expenditures		5,895	
Capital outlay		7,362	
Total	<u>15,800</u>	<u>13,257</u>	<u>2,543</u>
Cemeteries			
Operating expenditures		2,802	
Total	<u>3,700</u>	<u>2,802</u>	<u>898</u>
Total cultural and recreation	<u>19,500</u>	<u>16,059</u>	<u>3,441</u>
Debt Service:			
Principal retirement		93,085	
Interest and fees		42,975	
Total debt service	<u>167,914</u>	<u>136,060</u>	<u>31,854</u>
Total expenditures	<u>2,638,351</u>	<u>2,498,207</u>	<u>140,144</u>
Revenues over (under) expenditures	<u>(153,415)</u>	<u>82,069</u>	<u>235,484</u>
Other Financing Sources (Uses):			
Issuance of long-term debt	31,600	107,600	76,000
Appropriated fund balance	<u>121,815</u>	<u>-</u>	<u>(121,815)</u>
Total other financing sources (uses)	<u>153,415</u>	<u>107,600</u>	<u>(45,815)</u>
Net change in fund balance	<u>\$ -</u>	<u>189,669</u>	<u>\$ 189,669</u>
Fund Balance:			
Beginning of year - July 1		<u>1,090,656</u>	
End of year - June 30		<u>\$ 1,280,325</u>	

TOWN OF CARTHAGE, NORTH CAROLINA**PERPETUAL CARE FUND****SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES****IN FUND BALANCE - BUDGET AND ACTUAL****FOR THE YEAR ENDED JUNE 30, 2015**

	2015		
	Budget	Actual	Variance Over/Under
Revenues:			
Investment earnings	\$ 200	\$ 180	\$ (20)
Total revenues	<u>200</u>	<u>180</u>	<u>(20)</u>
Other Financing Sources (Uses):			
Transfer to General Fund	<u>(200)</u>	<u>-</u>	<u>200</u>
Net change in fund balance	<u>\$ -</u>	<u>180</u>	<u>\$ 180</u>
Fund Balance:			
Beginning of year - July 1		<u>75,588</u>	
End of year - June 30		<u><u>\$ 75,768</u></u>	

TOWN OF CARTHAGE, NORTH CAROLINA

**WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Operating revenues:			
Charges for services		\$ 1,172,909	
Tap fees		43,209	
Total operating revenues	\$ 1,237,782	1,216,118	\$ (21,664)
Non-operating revenues:			
Miscellaneous		4,322	
Interest earnings		392	
Total non-operating revenues	3,885	4,714	829
Total revenues	1,241,667	1,220,832	(20,835)
Expenditures:			
Operating expenditures:			
Water and sewer administration		109,505	
Water operations		450,934	
Water maintenance		34,997	
Sewer operations		425,272	
Sewer maintenance		29,233	
Total water and sewer operations	1,214,350	1,049,941	164,409
Debt principal payment		42,902	
Debt interest payment		31,556	
Total debt services	86,164	74,458	11,706
Capital Outlay:			
Water		175,238	
Total capital outlay	211,911	175,238	36,673
Total expenditures	1,512,425	1,299,637	212,788
Revenues over (under) expenditures	(270,758)	(78,805)	191,953
Other Financing Sources (Uses):			
Transfer to - Water Capital Improvement Project Fund	(20,000)	(29,270)	(9,270)
Transfer to - Sewer Capital Improvement Project Fund	-	(159,430)	(159,430)
Transfer from - Capital Reserve Fund	81,000	81,000	-
Note payable issued	164,793	164,869	76
Appropriated fund balance	44,965	-	(44,965)
Total other financing sources (uses)	270,758	57,169	(213,589)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ (21,636)	\$ (21,636)

TOWN OF CARTHAGE, NORTH CAROLINA

**WATER AND SEWER FUND
SCHEDULE OF REVENUES AND EXPENDITURES -
BUDGET AND ACTUAL (NON-GAAP)
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Reconciliation from Budgetary Basis			
(Modified Accrual) to Full Accrual Basis:			
Revenues and other financing sources over (under) expenditures and other financing uses		\$ (21,636)	
Reconciling items:			
Capital assets purchased		175,238	
Depreciation		(305,762)	
Contributions made to the pension plan in the current year		10,324	
Revenue bond issuance		1,056,000	
Principal retirement		42,902	
Bond Anticipation Note retirement		(1,056,000)	
Decrease in accrued compensated absences		2,698	
Pension expense		(2,924)	
Non-capitalized capital project expense		(2,900)	
Contributed capital		440,621	
Loan proceeds		(164,869)	
Accrued interest		(1,235)	
Intrafund transfers		<u>107,700</u>	
Change in net position		<u>\$ 280,157</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, 2015**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Other Financing Sources (Uses):			
Transfers from Water and Sewer Fund	\$ 20,000	\$ 7,700	\$ (12,300)
Appropriated fund balance	81,000	-	(81,000)
Transfers from Capital Project Fund	-	20,605	20,605
Transfers to Water and Sewer Fund	<u>(101,000)</u>	<u>(81,000)</u>	<u>20,000</u>
Total other financing sources (uses)	<u>-</u>	<u>(52,695)</u>	<u>(52,695)</u>
 Net change in fund balance	 <u>\$ -</u>	 <u>\$ (52,695)</u>	 <u>\$ (52,695)</u>

TOWN OF CARTHAGE, NORTH CAROLINA

WATER AND SEWER CAPITAL PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2015

	Project	Actual		
	Authorization	Prior Years	Current Year	Total To Date
Revenues:				
Restricted Intergovernmental:				
USDA Grant	\$ 580,000	\$ -	\$ 440,621	\$ 440,621
Investment earnings	-	66	-	66
Total revenues	<u>580,000</u>	<u>66</u>	<u>440,621</u>	<u>440,687</u>
Expenditures:				
Capital outlay				-
Administration	1,000	-	150	150
Engineering	<u>1,584,394</u>	<u>916,089</u>	<u>544,453</u>	<u>1,460,542</u>
Total expenditures	<u>1,585,394</u>	<u>916,089</u>	<u>544,603</u>	<u>1,460,692</u>
Debt Service:				
Principal retirement	1,056,000	-	1,056,000	1,056,000
Interest and other charges	<u>110,000</u>	<u>12,640</u>	<u>2,750</u>	<u>15,390</u>
Total debt service	<u>1,166,000</u>	<u>12,640</u>	<u>1,058,750</u>	<u>1,071,390</u>
Revenues over (under) expenditures	<u>(2,171,394)</u>	<u>(928,663)</u>	<u>(1,162,732)</u>	<u>(2,091,395)</u>
Other Financing Sources (Uses):				
Proceeds from debt	2,112,000	1,056,000	1,056,000	2,112,000
Transfer from Capital Reserve Fund	80,000	-	-	-
Transfers to Capital Reserve Fund	<u>(20,606)</u>	<u>-</u>	<u>(20,605)</u>	<u>(20,605)</u>
Total other financing sources (uses)	<u>2,171,394</u>	<u>1,056,000</u>	<u>1,035,395</u>	<u>2,091,395</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 127,337</u>	<u>(127,337)</u>	<u>\$ -</u>
Fund Balance:				
Beginning of year - July 1			<u>127,337</u>	
End of year - June 30			<u>\$ -</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, 2015

		Actual		
	<u>Project</u>	<u>Prior Years</u>	<u>Current</u>	<u>Total</u>
	<u>Authorization</u>		<u>Year</u>	<u>To Date</u>
Revenues:				
Restricted Intergovernmental:				
USDA Grant	\$ 2,234,000	\$ -	\$ -	\$ -
USDA Loan	1,766,000	-	-	-
Total revenues	<u>4,000,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Expenditures:				
Engineering	422,300	-	142,000	142,000
Development	3,345,000	-	-	-
Other	<u>232,700</u>	<u>-</u>	<u>4,275</u>	<u>4,275</u>
Total expenditures	<u>4,000,000</u>	<u>-</u>	<u>146,275</u>	<u>146,275</u>
Revenues over (under) expenditures	<u>-</u>	<u>-</u>	<u>(146,275)</u>	<u>(146,275)</u>
Other Financing Sources (Uses):				
Transfer from Water and Sewer Fund	-	-	151,730	151,730
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>151,730</u>	<u>151,730</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	5,455	<u>\$ 5,455</u>
Fund Balance:				
Beginning of year - July 1			<u>-</u>	
End of year - June 30			<u>\$ 5,455</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, 2015

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

TOWN OF CARTHAGE, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2015

Fiscal Year	Balance July 1, 2014	Additions	Collections and Credits	Balance June 30, 2015
2014-2015	\$ -	\$ 1,227,451	\$ 1,222,335	\$ 5,116
2013-2014	11,015	-	8,632	2,383
2012-2013	3,518	-	1,242	2,276
2011-2012	2,060	-	596	1,464
2010-2011	1,674	-	287	1,387
2009-2010	1,543	-	172	1,371
2008-2009	1,460	-	130	1,330
2007-2008	1,985	-	30	1,955
2006-2007	1,360	-	20	1,340
2005-2006	1,178	-	88	1,090
2004-2005	<u>1,165</u>	<u>-</u>	<u>1,165</u>	<u>-</u>
Total	<u>\$ 26,958</u>	<u>\$ 1,227,451</u>	<u>\$ 1,234,697</u>	19,712

Less: allowance for uncollectible accounts
General Fund

(7,095)

Ad valorem taxes receivable, net
General Fund

\$ 12,617**Reconciliation with Revenues:**

Ad valorem taxes - General Fund

\$ 1,239,307

Reconciling Items:

Amount written off per statute
Interest and lien advertising collected
Miscellaneous

1,165

(6,190)

415

Total collections and credits

\$ 1,234,697

TOWN OF CARTHAGE, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY - TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2015

	Town-Wide			Total Levy	
	Property Valuation	Rate	Total Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
Original Levy:					
Property taxed at current year's rate	\$ 231,171,767	\$ 0.430	\$ 994,039	\$ 919,081	\$ 74,958
Fire tax	368,373,484	0.064	235,759	211,593	24,166
Total	<u>599,545,252</u>		<u>1,229,798</u>	<u>1,130,674</u>	<u>99,123</u>
Abatements	<u>(545,681)</u>	0.430	<u>(2,346)</u>	<u>(2,214)</u>	<u>(132)</u>
Total property valuation	<u>\$ 598,999,570</u>				
Net Levy			1,227,451	1,128,460	98,991
Uncollected taxes, June 30, 2015			<u>5,116</u>	<u>5,116</u>	<u>-</u>
Current Year's Taxes Collected			<u>\$ 1,222,335</u>	<u>\$ 1,123,344</u>	<u>\$ 98,991</u>
Current Levy Collection Percentage			<u>99.58%</u>	<u>99.55%</u>	<u>100.00%</u>

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"A Professional Association of Certified Public Accountants and Management Consultants"

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
Town of Carthage
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 aggregate remaining fund information of the Town of Carthage, North Carolina, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the Town of Carthage's basic financial statements, and have issued our report thereon dated October 9, 2015.

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 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 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, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings, Responses and Questioned Costs, that we consider to be material weaknesses. We consider the deficiencies 2015-001, 2015-002, 2015-003, 2015-004, and 2015-006 to be material weaknesses.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Carthage's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of non-compliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying Schedule of Findings, Responses and Questioned Costs as item 2015-005.

Town of Carthage's Responses to Findings

The Town of Carthage's responses to the findings identified in our audit are described in the accompanying Schedule of Findings, Responses and Questioned Costs. The Town of Carthage's responses were not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the Town's internal control or on compliance. This report is an integral part of an audit performed in accordance with in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 9, 2015

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Report On Compliance For Each Major Federal Program; Report On Internal Control Over Compliance; In Accordance With OMB Circular A-133; And The State Single Audit Implementation Act

Independent Auditor's Report

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

Report on Compliance for Each Major Federal Program

We have audited the Town of Carthage, North Carolina's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* and the *Audit Manual for Governmental Auditors in North Carolina*, issued by the Local Government Commission, that could have a direct and material effect on each of the Town of Carthage's major Federal programs for the year ended June 30, 2015. The Town of Carthage's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings, Responses and Questioned Costs.

Management's Responsibility

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

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; OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*; and the State Single Audit Implementation Act. Those standards, OMB Circular A-133, and the State Single Audit Implementation Act, require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the Town 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 of the Town of Carthage's compliance.

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Toll Free Both Locations 1-800-948-0585 ♦ Website: www.martinstarnes.com

Opinion on Each Major Federal Program

In our opinion, the 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, 2015.

Report on Internal Control Over Compliance

Management of the 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 the 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 OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Town 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, non-compliance 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 non-compliance 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 9, 2015

TOWN OF CARTHAGE, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

1. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified? X Yes No
- Significant deficiencies identified not considered to be material weaknesses? Yes X None reported

Non-compliance material to financial statements noted?

 X Yes No

Federal Awards

Internal control over Federal programs:

- Material weaknesses identified? Yes X No
- Significant deficiencies identified not considered to be material weaknesses? Yes X None reported

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

Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510 (a) of OMB Circular A-133?

 Yes X No

The major Federal program for the Town of Carthage, North Carolina, for the fiscal year ended June 30, 2015 is:

Program Name

CFDA#

USDA Rural Development – Water and Waste Disposal Systems for Rural Communities

10.760

Dollar threshold used to distinguish between Type A and Type B Programs

\$300,000

Auditee qualified as low-risk auditee?

No

TOWN OF CARTHAGE, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

2. Findings Related to the Audit of the Basic Financial Statements

Finding 2015-001:

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

Condition: Financial reporting under the accounting standards promulgated by the Financial Accounting Standards Board and the Governmental Accounting Standards Board requires a level of technical expertise not possessed by Town personnel.

Context: The external auditor prepared a draft of the basic financial statements, all required note disclosures, and supplemental schedules.

Effect: The Town requires assistance from the external auditor in drafting their financial statements.

Cause: The cost of acquiring the technical expertise to comply with the financial reporting requirements discussed above appears prohibitive.

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

Name of Contact Person: Kesha Matthews, Finance Officer

Corrective Action/Management Response: Management concurs and will diligently review financial data to ensure agreement with audited financial statements.

TOWN OF CARTHAGE, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

Finding 2015-002:

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

Condition: A significant audit adjustment is a proposed correction of the basic financial statements that, in our judgment, may not have been detected except through our auditing procedures. The existence of such material adjustments indicated that the Town's system of controls did not detect and prevent such errors. We have provided management with a report of these adjustments.

Context: The external auditor identified significant audit adjustments as defined above.

Effect: Internal financial statements, provided to management during the year, may report results that are significantly different than the audited results provided after year-end.

Cause: Insufficient monthly reconciliations and inherent limitations due to the size of finance staff.

Recommendation: Management should examine the adjustments required as a result of our audit and assess the cost versus benefit of improving the internal control system to prevent adjustments in the future.

Name of Contact Person: Kesha Matthews, Finance Officer

Management's Response: Management is aware that year-end audit adjustments are typically required. Management will examine controls in place to see if they can be strengthened, given available resources, thus, reducing the number of audit adjustments required at year-end. In the areas where the cost/benefit does not justify improving the control system, management will exercise due caution in performing their oversight function.

TOWN OF CARTHAGE, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

2. Findings Related to the Audit of the Basic Financial Statements (continued)

Finding 2015-003:

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

Condition: There is currently no approval of journal entries prior to posting to the General Ledger. The person posting to the General Ledger reconciles the bank statements with no review performed.

Context: While performing documentation and testing of major systems of internal controls, we noted the condition described above.

Effect: Unauthorized and/or improper journal entries may be posted to the accounting system, which in effect, overrides other accounting controls that management is relying on.

Cause: Due to the limited number of personnel in the Town office, there are inherent limitations to the segregation of duties among Town personnel.

Recommendation: Access to the books and records of the Town should be separated from access to the assets of the Town as much as possible. Alternative controls should be used to compensate for any lack of segregation of duties.

Name of Contact Person: Kesha Matthews, Finance Officer

Corrective Action/Management Response: Management is aware of the weakness, but due to cost-benefit analysis, hiring personnel does not appear feasible.

TOWN OF CARTHAGE, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

2. Findings Related to the Audit of the Basic Financial Statements (continued)

Finding 2015-004:

Criteria: Management should design a system of internal controls that limits the same personnel from having access to assets and having access to the general ledger.

Condition: The Town has one person responsible for preparing payroll input, reviewing the payroll journals from the payroll system, and finalizing each payroll. This same person performs human resources duties. The employee's work is not reviewed by anyone else.

Context: While performing documentation and testing of major systems of internal controls, we noted the condition described above.

Effect: Having one employee perform both payroll and human resource functions without someone else reviewing their work increases the likelihood of fraudulent activities involving personnel files and payroll.

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

Recommendation: This combination of duties is incompatible and significantly increases the chance of an error or irregularity going undetected. We suggest that some of these functions be segregated among other employees to protect the assets of the Town. At a minimum, we suggest having someone else finalize each payroll. Access to the personnel files and payroll functions should be separated.

Name of Contact Person: Kesha Matthews, Finance Officer

Corrective Action/Management Response: Management is aware of the weakness and will evaluate the accounting function to make changes where possible and request oversight from elected officials.

TOWN OF CARTHAGE, NORTH CAROLINA
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

2. Findings Related to the Audit of the Basic Financial Statements (continued)

Finding 2015-005:

Criteria: Management should have a control system in place to reduce the likelihood that violations of General Statutes occur and go undetected.

Condition: In the current year, we noted a violation of the General Statutes regarding pre-audit procedures. Part-time firefighters and new law enforcement officers were receiving pay without salary rate information documented in the personnel file. No rate documentation was included and stamped with the preapproval language and signature.

Context: While performing documentation and walkthroughs of major systems of internal controls, we noted the condition described above.

Effect: The Town was in violation of North Carolina General Statutes (G.S. 159-28). The Statute requires the pre-audit of expenditures.

Cause: The Town's Finance Department does not have adequate safeguards in place to monitor preaudit compliance.

Recommendation: We recommend that the Town pre-audit the salary expenditures for proper budgetary compliance before expending the Town's funds. All payroll changes should be preaudited and documented on the Personnel Action Form.

Name of Contact Person: Kesha Matthews, Finance Officer

Management Response/Corrective Action: Management concurs with the recommendation. Management also adds that this was a timing issue and will be resolved in the next fiscal year.

TOWN OF CARTHAGE, NORTH CAROLINA
SCHEDULE OF FINDINGS, RESPONSES AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015

2. Findings Related to the Audit of the Basic Financial Statements (continued)

Finding 2015-006:

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

Condition: In the current year, we noted part-time firefighters were receiving pay and new law enforcement officers were receiving a five percent raise after twelve months of employment, but the rate was not approved and documented in the personnel files.

Context: While performing documentation and walkthroughs of major systems of internal controls, we noted the condition described above.

Effect: The Town paid salary to employees without documentation and approval of pay amount.

Cause: The Town's Finance Department does not have adequate safeguards in place to monitor internal control over personnel files and employee salary.

Recommendation: We recommend that the Town perform annual reviews of each personnel file ensuring that a personnel action form is included in that file and that the pay rate is approved. All payroll changes should be preaudited and documented on the Personnel Action Form.

Name of Contact Person: Kesha Matthews, Finance Officer

Management Response/Corrective Action: Management concurs with the recommendation. Management also adds that this was a timing issue and will be resolved in the next fiscal year.

TOWN OF CARTHAGE, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015

Finding 2014-001

Status: Repeated as Finding 2015-001.

Finding 2014-002

Status: Modified and repeated as Findings 2015-003, 2015-004, and 2015-006.

Finding 2014-003

Status: Corrected.

TOWN OF CARTHAGE, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2015

<u>Grantor / Pass-Through Grantor / Program Title</u>	<u>CFDA Number</u>	<u>Expenditures</u>	
		<u>Federal</u>	<u>State</u>
Federal Awards:			
<u>U.S. Department of Agriculture</u>			
Water and Waste Program Cluster			
Direct Program:			
Water and Waste Disposal Systems for Rural Communities	10.760	\$ 706,128	\$ -
<u>U.S. Department of Homeland Security</u>			
Passed through Federal Emergency Management Agency:			
SAFER Grant	97.083	127,058	-
<u>U.S. Department of Justice</u>			
Bureau of Justice Assistance			
Direct Program:			
Bulletproof Vest Partnership Program	16.607	1,150	-
Total Federal Awards		834,336	-
State Awards:			
<u>N.C. Department of Transportation</u>			
Powell Bill		-	64,618
<u>N.C. Department of Insurance</u>			
Office of State Fire Marshall			
2014 Volunteer Department Fund Grant		-	12,912
Total Federal and State Awards		\$ 834,336	\$ 77,530

Notes to the Schedule of Expenditures of Federal and State Awards:

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State Grant Awards includes the federal and State grant activity of the Town of Carthage, North Carolina, 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, *Audit 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.

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