

**TOWN OF CARTHAGE
NORTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2014

**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, 2014

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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, 2014, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis 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 and 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 December 10, 2014 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
December 10, 2014

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

Financial Highlights

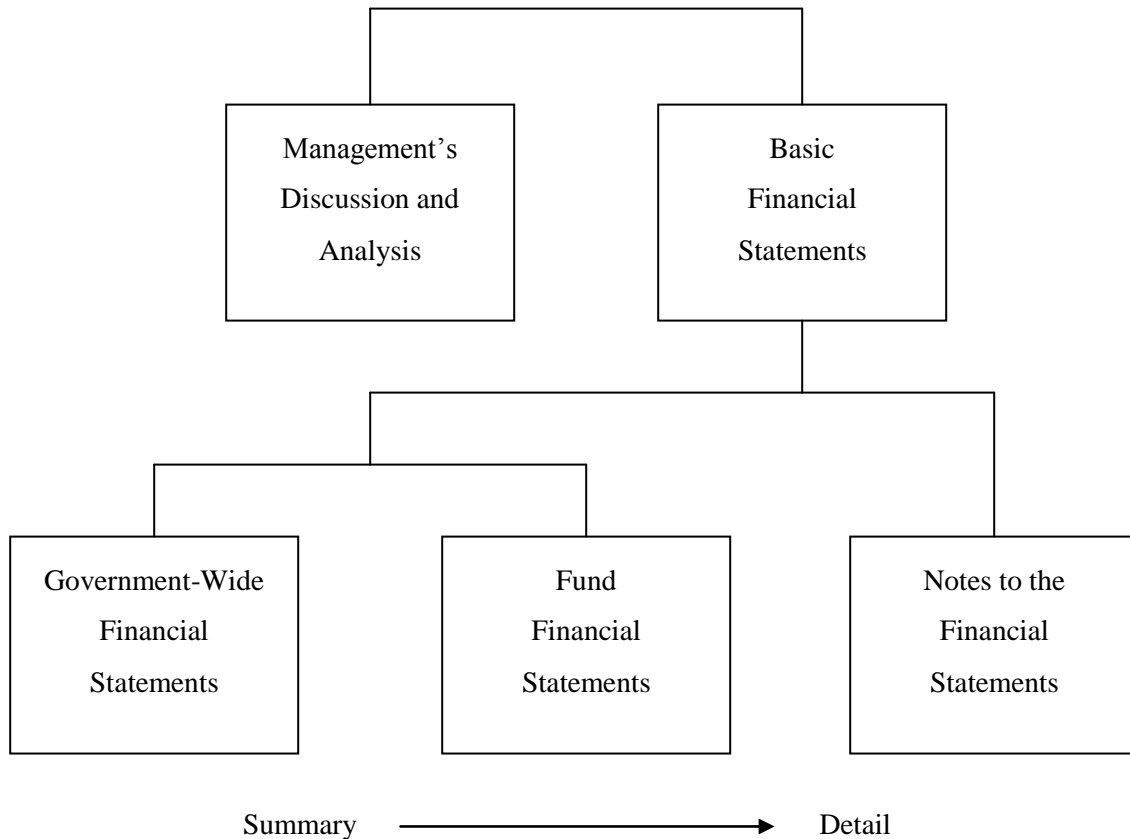
- The Town of Carthage's assets exceeded its liabilities at the close of the fiscal year by \$8,476,633 (net position).
- The Town's total net position decreased by \$608,142 with approximately 52 percent of the decrease coming from governmental activities.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,166,244 with a net decrease of \$266,279 in fund balance. Approximately 28 percent of this total amount, or \$323,495, is non-spendable or restricted.
- At the end of the current fiscal year, available fund balance for the General Fund was \$898,259, or 34.4 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.

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 *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.

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 exceeded liabilities by \$8,476,633 at the close of the most recent fiscal year. The Town's net position decreased by \$608,142 for the fiscal year ended June 30, 2014.

A portion of the Town's net position (83 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 (\$1,136,554) may be used to meet the government's ongoing obligation to citizens and creditors.

Town of Carthage's Net Position

Figure 2

	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Assets:						
Current and other assets	\$ 1,300,255	\$ 1,527,903	\$ 585,918	\$ 530,815	\$ 1,886,173	\$ 2,058,718
Capital assets, net	<u>2,151,525</u>	<u>2,294,450</u>	<u>6,758,430</u>	<u>6,100,741</u>	<u>8,909,955</u>	<u>8,395,191</u>
Total assets	<u>3,451,780</u>	<u>3,822,353</u>	<u>7,344,348</u>	<u>6,631,556</u>	<u>10,796,128</u>	<u>10,453,909</u>
Liabilities:						
Long-term liabilities,						
outstanding	864,623	978,999	22,881	45,350	887,504	1,024,349
Other liabilities	<u>255,355</u>	<u>229,585</u>	<u>1,176,636</u>	<u>149,902</u>	<u>1,431,991</u>	<u>379,487</u>
Total liabilities	<u>1,119,978</u>	<u>1,208,584</u>	<u>1,199,517</u>	<u>195,252</u>	<u>2,319,495</u>	<u>1,403,836</u>
Net position:						
Net investment in						
capital assets	1,222,112	1,266,580	5,794,472	5,990,000	7,016,584	7,256,580
Restricted	323,495	251,376	-	-	323,495	251,376
Unrestricted	<u>786,195</u>	<u>1,095,813</u>	<u>350,359</u>	<u>446,304</u>	<u>1,136,554</u>	<u>1,542,117</u>
Total net position	<u>\$ 2,331,802</u>	<u>\$ 2,613,769</u>	<u>\$ 6,144,831</u>	<u>\$ 6,436,304</u>	<u>\$ 8,476,633</u>	<u>\$ 9,050,073</u>

Town of Carthage's Changes in Net Position

Figure 3

	Governmental		Business-Type		Total	
	Activities		Activities			
	2014	2013	2014	2013	2014	2013
Revenues:						
Program revenues:						
Charges for services	\$ 133,591	\$ 141,983	\$ 1,128,234	\$ 1,042,668	\$ 1,261,825	\$ 1,184,651
Operating grants and contributions	267,512	125,381	-	-	267,512	125,381
General revenues:						
Property taxes	1,163,437	1,102,438	-	-	1,163,437	1,102,438
Other taxes	487,026	478,785	-	-	487,026	478,785
Other	284,341	286,750	307	435	284,648	287,185
Total revenues	<u>2,335,907</u>	<u>2,135,337</u>	<u>1,128,541</u>	<u>1,043,103</u>	<u>3,464,448</u>	<u>3,178,440</u>
Expenses:						
General government	587,966	562,186	-	-	587,966	562,186
Public safety	1,353,842	1,043,405	-	-	1,353,842	1,043,405
Streets and sanitation	507,918	492,609	-	-	507,918	492,609
Cultural and recreation	15,984	12,961	-	-	15,984	12,961
Interest on long-term debt	66,866	8,755	-	-	66,866	8,755
Water and sewer	-	-	1,540,014	1,373,087	1,540,014	1,373,087
Total expenses	<u>2,532,576</u>	<u>2,119,916</u>	<u>1,540,014</u>	<u>1,373,087</u>	<u>4,072,590</u>	<u>3,493,003</u>
Increase in net position before transfers	(196,669)	15,421	(411,473)	(329,984)	(608,142)	(314,563)
Transfers	<u>(120,000)</u>	<u>(80,000)</u>	<u>120,000</u>	<u>80,000</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	<u>(316,669)</u>	<u>(64,579)</u>	<u>(291,473)</u>	<u>(249,984)</u>	<u>(608,142)</u>	<u>(314,563)</u>
Net Position:						
Beginning of year - July 1	2,613,769	2,678,348	6,436,304	6,686,288	9,050,073	9,364,636
Restatement	<u>34,702</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>34,702</u>	<u>-</u>
End of year - June 30	<u>\$ 2,331,802</u>	<u>\$ 2,613,769</u>	<u>\$ 6,144,831</u>	<u>\$ 6,436,304</u>	<u>\$ 8,476,633</u>	<u>\$ 9,050,073</u>

Governmental Activities. Governmental activities decreased the Town's net position by \$316,669. Key elements of this decrease are as follows:

- Transfer of \$120,000 to the Water and Sewer Fund for the emergency purchase of filters for the Water Treatment Plant. Because of high levels of iron in our raw water supply, the filters wore out faster than anticipated.
- Approximately \$196,000 of fund balance was appropriated for several one-time expenses such as purchasing generators for the Town Hall building, upgrading our computer system, changing street light bulbs to energy efficient LEDs, engaging an engineering firm to create a Capital Improvement Plan and do a Rate Study, costly repairs and maintenance on fire trucks to ensure optimal operating condition and to pass mandatory inspections
- Revenues from a FEMA S.A.F.E.R Grant were over budgeted.

Business-Type Activities. Business-type activities decreased the Town of Carthage's net position by \$291,473. Key elements of this decrease are as follows:

- Increase in operating costs and unexpected repairs and maintenance in the current fiscal year. These costs were due in part to the fact that our sewer system is operating above capacity, which causes the pumps to run continuously rather than shutting down periodically as they were designed to do.
- Increased costs due to failure of the Little River Sewer Pump Station.
- Unexplained infiltration in sewer system increased cost of pumping and wastewater treatment

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 \$898,259, and total fund balance was \$1,090,656. The Town currently has available fund balance of 34.4% of General Fund expenditures and transfers to other funds, less long-term debt issued, while total fund balance represents 41.8% of the same amount.

At June 30, 2014, the governmental funds of the Town of Carthage reported a combined fund balance of \$1,166,244, with a net decrease in fund balance of \$266,279. Included in this change in fund balance are a decrease in the General Fund of \$266,342 and an increase in the Perpetual Care Fund of \$63.

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 \$350,359. The change in net position was a decrease of \$291,473. 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 net investment in capital assets for its governmental and business-type activities as of June 30, 2014, totals \$8,909,955 (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 addition of a capital project fund for a sewer interconnection project. This project includes construction in progress to add one new and rebuild two sewer pump stations. In addition to the pump stations, the project also added new force main.

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

Figure 4

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land	\$ 304,650	\$ 304,650	\$ 124,787	\$ 124,787	\$ 429,437	\$ 429,437
Construction in progress	-	-	916,089	-	916,089	-
Building and improvements	939,938	974,941	1,379,192	1,429,301	2,319,130	2,404,242
Furniture and equipment	906,937	1,014,859	-	-	906,937	1,014,859
Machinery and equipment	-	-	1,240,757	1,319,828	1,240,757	1,319,828
Water and sewer improvements	-	-	3,097,605	3,226,825	3,097,605	3,226,825
Capital assets, net	<u>\$ 2,151,525</u>	<u>\$ 2,294,450</u>	<u>\$ 6,758,430</u>	<u>\$ 6,100,741</u>	<u>\$ 8,909,955</u>	<u>\$ 8,395,191</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

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Capital lease obligations	\$ 102,519	\$ 168,704	\$ 14,328	\$ 20,834	\$ 116,847	\$ 189,538
Installment purchases	826,894	859,166	-	-	826,894	859,166
Bond anticipation note	-	-	1,056,000	-	1,056,000	-
Notes payable	-	-	20,967	89,907	20,967	89,907
Total	<u>\$ 929,413</u>	<u>\$ 1,027,870</u>	<u>\$ 1,091,295</u>	<u>\$ 110,741</u>	<u>\$ 2,020,708</u>	<u>\$ 1,138,611</u>

The Town of Carthage's total debt increased by \$882,097 during the past fiscal year due to the issuance of interim financing for the Water and Sewer Capital Project.

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 \$46,000,000.

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 have begun construction on Part I of Phase III, which will add 65 new lots. Also, plans have been approved and construction begun to add 13 new lots in the Savannah Garden subdivision. There is a strong indication that one, possibly two, fast food restaurants may locate to Carthage. We continue to be contacted by developers interested in Carthage.

Budget Highlights for the Fiscal Year Ending June 30, 2015

Governmental Activities. The Town's property tax rate was increased to \$.43 per \$100 valuation. The Town's tax base is estimated at \$225,000,000. The \$.43 tax rate is projected to generate approximately \$981,150 in revenues. Tax revenues are estimated to be \$80,463, 9.93% more than Fiscal Year 2012-2013 projected revenues. For Fiscal Year 2014-2015, the garbage collection fee was increased by \$1.25, 10.4% over the previous year. Based on the current economic situation and decreases in revenue projections from the State, budgeted expenditures in the General Fund have been cut from the prior year. Interest rates are still low and provide a limited revenue source.

Although there were cuts in some areas, budgeted expenditures in the General Fund will increase by \$20,854, 0.9% over Fiscal Year 2013-2014 budgeted expenses. This increase is due to a 2% cost of living adjustment, an increase in the Finance Officer's travel/training expenses, and an increase in legal expenses related to retaining a new firm.

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 increase due to rate increases and continued growth in our customer base. The rate increases are to offset the rate increase from Moore County Wastewater Control and to generate additional revenue for the debt service payment for the new sewer improvement project and plans for improvements to our water treatment plant. General operating expenses, although cut in some areas, are expected to increase due to the increased cost of departmental operations.

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, 2014

	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:			
Cash and cash equivalents	\$ 1,044,057	\$ 220,794	\$ 1,264,851
Receivables:			
Taxes receivable, net	19,497	-	19,497
Accounts receivable, net	192,399	216,526	408,925
Cash and cash equivalents - restricted	44,302	148,598	192,900
Capital assets:			
Non-depreciable capital assets	304,650	1,040,876	1,345,526
Other capital assets, net of depreciation	1,846,875	5,717,554	7,564,429
Total assets	<u>3,451,780</u>	<u>7,344,348</u>	<u>10,796,128</u>
Liabilities:			
Accounts payable and accrued liabilities	114,514	70,473	184,987
Accrued interest payable	33,544	-	33,544
Current portion of compensated absences	24,000	1,000	25,000
Current portion of long-term debt	83,297	1,083,902	1,167,199
Liabilities to be paid from restricted assets:			
Customer deposits	-	21,261	21,261
Long-term liabilities:			
Non-current portion of long-term debt	846,116	7,393	853,509
Non-current portion of compensated absences	18,507	15,488	33,995
Total liabilities	<u>1,119,978</u>	<u>1,199,517</u>	<u>2,319,495</u>
Net Position:			
Net investment in capital assets	1,222,112	5,794,472	7,016,584
Restricted for:			
Stabilization by State statute	192,399	-	192,399
Public safety	18,815	-	18,815
Streets	44,302	-	44,302
Cemetery perpetual maintenance	67,979	-	67,979
Unrestricted	786,195	350,359	1,136,554
Total net position	<u>\$ 2,331,802</u>	<u>\$ 6,144,831</u>	<u>\$ 8,476,633</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, 2014

		Program Revenues	
		Charges for	Operating
	Expenses	Services	Grants and
			Contributions
Functions/Programs:			
Primary Government:			
Governmental Activities:			
General government	\$ 587,966	\$ -	\$ 75,140
Public safety	1,353,842	-	192,372
Street and sanitation	507,918	133,591	-
Culture and recreation	15,984	-	-
Debt service - interest	66,866	-	-
Total governmental activities	<u>2,532,576</u>	<u>133,591</u>	<u>267,512</u>
Business-Type Activities:			
Water and sewer	<u>1,540,014</u>	<u>1,128,234</u>	<u>-</u>
Total primary government	<u>\$ 4,072,590</u>	<u>\$ 1,261,825</u>	<u>\$ 267,512</u>

General Revenues:

Ad valorem taxes
 Other taxes and licenses
 Unrestricted intergovernmental
 Other general revenues
 Investment earnings
 Total general revenues excluding transfers

Transfers
 Total general revenues and transfers

Change in net position

Net Position:

Beginning of year - July 1
 Restatement
 Beginning of year - July 1, as restated
 End of year - June 30

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

Exhibit B

Net (Expense) Revenue and Changes in Net Position		
Primary Government		
Governmental Activities	Business-Type Activities	Total
\$ (512,826)	\$ -	\$ (512,826)
(1,161,470)	-	(1,161,470)
(374,327)	-	(374,327)
(15,984)	-	(15,984)
(66,866)	-	(66,866)
<u>(2,131,473)</u>	<u>-</u>	<u>(2,131,473)</u>
<u>-</u>	<u>(411,780)</u>	<u>(411,780)</u>
<u>(2,131,473)</u>	<u>(411,780)</u>	<u>(2,543,253)</u>
1,163,437	-	1,163,437
487,026	-	487,026
163,099	-	163,099
120,139	-	120,139
1,103	307	1,410
<u>1,934,804</u>	<u>307</u>	<u>1,935,111</u>
<u>(120,000)</u>	<u>120,000</u>	<u>-</u>
<u>1,814,804</u>	<u>120,307</u>	<u>1,935,111</u>
<u>(316,669)</u>	<u>(291,473)</u>	<u>(608,142)</u>
2,613,769	6,436,304	9,050,073
34,702	-	34,702
<u>2,648,471</u>	<u>6,436,304</u>	<u>9,084,775</u>
<u>\$ 2,331,802</u>	<u>\$ 6,144,831</u>	<u>\$ 8,476,633</u>

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

TOWN OF CARTHAGE, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2014

	Major	Nonmajor	Total
	General	Perpetual Care	Governmental
	Fund	Fund	Funds
Assets:			
Cash and cash equivalents	\$ 968,471	\$ 75,586	\$ 1,044,057
Taxes receivable, net	19,497	-	19,497
Accounts receivable, net	86,271	-	86,271
Due from other governments	106,126	2	106,128
Restricted cash	44,302	-	44,302
Total assets	<u>\$ 1,224,667</u>	<u>\$ 75,588</u>	<u>\$ 1,300,255</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	<u>\$ 114,514</u>	<u>\$ -</u>	<u>\$ 114,514</u>
Deferred Inflows of Resources:			
Property taxes receivable	<u>19,497</u>	<u>-</u>	<u>19,497</u>
Fund Balances:			
Non-spendable, not in spendable form:			
Perpetual maintenance	-	67,979	67,979
Restricted:			
Stabilization by State statute	192,397	2	192,399
Streets	44,302	-	44,302
Public safety	18,815	-	18,815
Assigned:			
USDA	35,467	-	35,467
Subsequent year's expenditures	115,709	-	115,709
Perpetual care	-	7,607	7,607
Unassigned	<u>683,966</u>	<u>-</u>	<u>683,966</u>
Total fund balances	<u>1,090,656</u>	<u>75,588</u>	<u>1,166,244</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 1,224,667</u>	<u>\$ 75,588</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.	2,151,525
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.	(1,005,464)
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	<u>19,497</u>
Net position of governmental activities	<u>\$ 2,331,802</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, 2014

	<u>Major</u>	<u>Nonmajor</u>	
	<u>General</u>	<u>Perpetual Care</u>	
	<u>Fund</u>	<u>Fund</u>	<u>Total</u>
Revenues:			
Ad valorem taxes	\$ 1,170,337	\$ -	\$ 1,170,337
Other taxes and licenses	487,026	-	487,026
Unrestricted intergovernmental	163,099	-	163,099
Restricted intergovernmental	267,512	-	267,512
Sales and services	133,591	-	133,591
Investment earnings	1,040	63	1,103
Miscellaneous	120,139	-	120,139
Total revenues	<u>2,342,744</u>	<u>63</u>	<u>2,342,807</u>
Expenditures:			
Current:			
General government	632,666	-	632,666
Public safety	1,186,295	-	1,186,295
Street and sanitation	507,918	-	507,918
Culture and recreation	15,984	-	15,984
Debt service:			
Principal	98,457	-	98,457
Interest	47,766	-	47,766
Total expenditures	<u>2,489,086</u>	<u>-</u>	<u>2,489,086</u>
Revenues over (under) expenditures	(146,342)	63	(146,279)
Other Financing Sources (Uses):			
Transfers (out)	<u>(120,000)</u>	<u>-</u>	<u>(120,000)</u>
Net change in fund balances	<u>(266,342)</u>	<u>63</u>	<u>(266,279)</u>
Fund Balances:			
Beginning of year - July 1	1,322,296	75,525	1,397,821
Restatement	34,702	-	34,702
Beginning of year - July 1, as restated	<u>1,356,998</u>	<u>75,525</u>	<u>1,432,523</u>
End of year - June 30	<u>\$ 1,090,656</u>	<u>\$ 75,588</u>	<u>\$ 1,166,244</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, 2014

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)	\$ (266,279)
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.	(6,900)
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	20,078
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.	61,153
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(204,078)
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.	98,457
Accrued interest payable is not shown on the governmental funds statement; however, in the Statement of Activities, the change in accrued interest is reflected.	<u>(19,100)</u>
Change in net position of governmental activities (Exhibit B)	<u>\$ (316,669)</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, 2014

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Over/Under
	Original	Final		
Revenues:				
Ad valorem taxes	\$ 1,097,174	\$ 1,097,174	\$ 1,170,337	\$ 73,163
Other taxes and licenses	477,680	477,680	487,026	9,346
Unrestricted intergovernmental	160,200	160,200	163,099	2,899
Restricted intergovernmental	318,650	342,205	267,512	(74,693)
Sales and services	142,200	142,200	133,591	(8,609)
Investment earnings	1,500	1,500	1,040	(460)
Miscellaneous	82,925	102,038	120,139	18,101
Total revenues	<u>2,280,329</u>	<u>2,322,997</u>	<u>2,342,744</u>	<u>19,747</u>
Expenditures:				
Current:				
General government	595,524	695,308	632,666	62,642
Public safety	1,118,204	1,218,107	1,186,295	31,812
Street and sanitation	501,804	549,911	507,918	41,993
Cultural and recreation	19,140	19,440	15,984	3,456
Debt service:				
Principal	98,500	98,500	98,457	43
Interest	48,748	48,748	47,766	982
Total expenditures	<u>2,381,920</u>	<u>2,630,014</u>	<u>2,489,086</u>	<u>140,928</u>
Revenues over (under) expenditures	<u>(101,591)</u>	<u>(307,017)</u>	<u>(146,342)</u>	<u>160,675</u>
Other Financing Sources (Uses):				
Fund balance appropriated	101,591	427,017	-	(427,017)
Transfer (out)	<u>-</u>	<u>(120,000)</u>	<u>(120,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>101,591</u>	<u>307,017</u>	<u>(120,000)</u>	<u>(427,017)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(266,342)</u>	<u>\$ (266,342)</u>
Fund Balance:				
Beginning of year - July 1			1,322,296	
Restatement			<u>34,702</u>	
Beginning of year - July 1, as restated			<u>1,356,998</u>	
End of year - June 30			<u>\$ 1,090,656</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, 2014

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and investments	\$ 220,794
Customer receivables, net	183,955
Receivables, other	12,645
Due from other governments	19,926
Restricted cash and investments	<u>148,598</u>
Total current assets	<u>585,918</u>
Non-current assets:	
Land and construction in progress	1,040,876
Other capital assets, net of depreciation	<u>5,717,554</u>
Total non-current assets	<u>6,758,430</u>
Total assets	<u>7,344,348</u>
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	70,473
Current portion of compensated absences	1,000
Current portion of long-term debt	1,083,902
Liabilities to be paid from restricted assets:	
Customer deposits	<u>21,261</u>
Total current liabilities	<u>1,176,636</u>
Non-current liabilities:	
Non-current portion of long-term debt	7,393
Compensated absences	<u>15,488</u>
Total non-current liabilities	<u>22,881</u>
Total liabilities	<u>1,199,517</u>
Net Position:	
Net investment in capital assets	5,794,472
Unrestricted	<u>350,359</u>
Total net position	<u>\$ 6,144,831</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, 2014

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for sales and services	\$ 997,498
Other operating revenue	<u>130,736</u>
Total operating revenues	<u>1,128,234</u>
Operating Expenses:	
Administration	76,824
Water operations	595,585
Sewer operations	558,508
Depreciation	<u>289,015</u>
Total operating expenses	<u>1,519,932</u>
Operating income (loss)	<u>(391,698)</u>
Non-Operating Revenues (Expenses):	
Interest and fees paid	(20,082)
Investment earnings	<u>307</u>
Total non-operating revenues (expenses)	<u>(19,775)</u>
Income (loss) before transfers and contributions	(411,473)
Transfers from other funds	<u>120,000</u>
Change in net position	(291,473)
Net Position:	
Beginning of year - July 1	<u>6,436,304</u>
End of year - June 30	<u><u>\$ 6,144,831</u></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, 2014

	<u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 1,058,714
Cash paid for goods and services	(1,086,403)
Cash paid to employees for services	(121,272)
Customer deposits	469
Net cash provided (used) by operating activities	<u>(148,492)</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers from other funds	<u>120,000</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from long-term debt	1,056,000
Principal paid on long-term debt	(75,446)
Interest paid on long-term debt	(20,082)
Acquisition and construction of capital assets	<u>(946,704)</u>
Net cash provided (used) by capital and related financing activities	<u>13,768</u>
Cash Flows from Investing Activities:	
Investment earnings	<u>307</u>
Net increase (decrease) in cash and cash equivalents	(14,417)
Cash and cash equivalents - July 1	<u>383,809</u>
Cash and cash equivalents - June 30	<u>\$ 369,392</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (391,698)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	289,015
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	(69,520)
Increase (decrease) in accounts payable and accrued liabilities	23,242
Increase (decrease) in customer deposits	<u>469</u>
Net cash provided (used) by operating activities	<u>\$ (148,492)</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, 2014

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, 2014

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, 2014

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. 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, 2014

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. Project ordinance are 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, 2014

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.

Town of Carthage Restricted Cash

Governmental Activities:

General Fund

Streets	\$ 44,302
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Business-Type Activities:

Water and Sewer Fund

Customer deposits	21,261
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Unspent proceeds	127,337
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Total business-type activities	148,598
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Total restricted cash	\$ 192,900
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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, 2013. 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, 2014

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	\$ 7,461	\$ -
Water and sewer receivable	-	3,800
Total	<u>\$ 7,461</u>	<u>\$ 3,800</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 outflow of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town does not have any items that meet this criterion.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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 an inflow of resources (revenue) until that time. The government has one type of item which arise only under a modified accrual basis of accounting that qualifies for reporting in this category. The governmental funds report unavailable revenue from property taxes.

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, 2014

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). Any changes or removal of specific purpose requires majority action by the governing body.

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

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Assigned for United States Department of Agriculture (USDA) – portion of fund balance that is available for appropriation but segregated for USDA payments. This amount represents the payments due to the USDA in the next year.

Subsequent Year's Expenditures – portion of fund balance that is appropriated in the next year's budget that is not already classified in restricted or committed. The governing body approves the appropriation; however, the budget ordinance authorizes the Manager to modify the appropriations by resource or appropriation within funds up to \$100,000.

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	\$ 1,090,656
Less:	
Stabilization by State statute	192,397
Total available fund balance	<u>\$ 898,259</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, 2014

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.

2. 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 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, 2014, the Town's deposits had a carrying amount of \$1,156,396 and a bank balance of \$972,047. Of the bank balance, \$745,621 was covered by federal depository insurance, and \$226,426 was covered by collateral held under the Pooling Method. At June 30, 2014, the Town's petty cash fund totaled \$500.

Investments

At June 30, 2014, the Town of Carthage had \$300,855 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.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Accounts Receivable

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

	Governmental Activities	Business-Type Activities	Total
Garbage fee	\$ 24,499	\$ -	\$ 24,499
Due from other governments	106,128	19,926	126,054
Customer receivables	-	183,955	183,955
Other	61,772	12,645	74,417
Total	<u>\$ 192,399</u>	<u>\$ 216,526</u>	<u>\$ 408,925</u>

Capital Assets

Primary Government

Capital asset activity for governmental activities for the year ended June 30, 2014, was as follows:

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 304,650	\$ -	\$ -	\$ 304,650
Depreciable Capital Assets:				
Buildings and improvements	1,387,476	-	-	1,387,476
Furniture and equipment	2,506,025	61,153	-	2,567,178
Total depreciable capital assets	3,893,501	61,153	-	3,954,654
Less Accumulated Depreciation:				
Buildings and improvements	412,535	35,003	-	447,538
Furniture and equipment	1,491,166	169,075	-	1,660,241
Total accumulated depreciation	1,903,701	\$ 204,078	\$ -	2,107,779
Total depreciable capital assets, net	1,989,800			1,846,875
Governmental activity capital assets, net	<u>\$ 2,294,450</u>			<u>\$ 2,151,525</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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

General government	\$ 36,531
Public safety	<u>167,547</u>
Total depreciation expense	<u>\$ 204,078</u>

Proprietary Capital Assets

The capital asset activity of the Proprietary Fund for the year ended June 30, 2014, was as follows:

	<u>Balance</u> <u>July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2014</u>
Business-Type Activities:				
Water and Sewer Fund:				
Non-Depreciable Capital Assets:				
Land	\$ 124,787	\$ -	\$ -	\$ 124,787
Construction in progress	<u>-</u>	<u>916,089</u>	<u>-</u>	<u>916,089</u>
Total non-depreciable capital assets	<u>124,787</u>	<u>916,089</u>	<u>-</u>	<u>1,040,876</u>
Depreciable Capital Assets:				
Buildings	2,095,691	-	-	2,095,691
Machinery and equipment	2,349,507	30,615	-	2,380,122
Water and sewer improvements	<u>5,565,311</u>	<u>-</u>	<u>-</u>	<u>5,565,311</u>
Total depreciable capital assets	<u>10,010,509</u>	<u>30,615</u>	<u>-</u>	<u>10,041,124</u>
Less Accumulated Depreciation:				
Buildings	666,390	50,109	-	716,499
Machinery and equipment	1,029,679	109,686	-	1,139,365
Water and sewer improvements	<u>2,338,486</u>	<u>129,220</u>	<u>-</u>	<u>2,467,706</u>
Total accumulated depreciation	<u>4,034,555</u>	<u>\$ 289,015</u>	<u>\$ -</u>	<u>4,323,570</u>
Total depreciable capital assets, net	<u>5,975,954</u>			<u>5,717,554</u>
Business-type activities capital assets, net	<u>\$ 6,100,741</u>			<u>\$ 6,758,430</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Net Investment In Capital Assets

The total net investment in capital assets, at June 30, 2014, is composed of the following elements:

	Governmental Activities	Business-Type Activities
Capital assets	\$ 2,151,525	\$ 6,758,430
Unspent debt proceeds	-	127,337
Long-term debt related to capital assets	(929,413)	(1,091,295)
Net investment in capital assets	<u>\$ 1,222,112</u>	<u>\$ 5,794,472</u>

Accounts Payable and Accrued Liabilities

Payables at June 30, 2014, were as follows:

	Vendors	Salaries and Benefits	Total
Governmental Activities:			
General	<u>\$ 92,955</u>	<u>\$ 21,559</u>	<u>\$ 114,514</u>
Business-Type Activities:			
Water and sewer	<u>\$ 61,195</u>	<u>\$ 9,278</u>	<u>\$ 70,473</u>

Pension Plan Obligations

Local Governmental Employees' Retirement System

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

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Funding Policy. Plan members are required to contribute 6% of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 7.07% and 7.28%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Carthage are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2014, 2013, and 2012 were \$63,553, \$52,574, and \$138,847, respectively. The contributions made by the Town equaled the required contributions for each year.

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, 2013, the Separation Allowance membership consisted of:

Retirees and beneficiaries currently receiving benefits	-
Current employees	11
Total	<u>11</u>

Summary of Significant Accounting Policies

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

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

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

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

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to 5% of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2014, were \$23,949, which consisted of \$18,278 from the Town and \$5,671 from the law enforcement officers.

Firefighter's and Recue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Carthage, to the Firefighter's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing, multiple-employer defined benefit pension plan with a special funding situation administered by the State of North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers who have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firefighter's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firefighter's and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town does not contribute to the Fund. Contribution requirements of plan members and the State of North Carolina are established and may be amended by the North Carolina General Assembly.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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 first lease agreement was executed on July 1, 2003, with the USDA and original issue amount of \$160,000, to lease a fire truck and requires ten (10) annual payments of \$19,975 including its interest at 4.25%. This lease was paid off at June 30, 2014.

The second 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, 2014 was \$102,519.

Business-type Activities:

The third 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, 2014 was \$14,328.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

The assets acquired through capital leases are as follows:

	<u>Governmental Activities</u>	<u>Water and Sewer Fund</u>
Asset:		
Vehicles	\$ 365,369	\$ 28,715
Less: accumulated depreciation	<u>(161,196)</u>	<u>(9,901)</u>
Net book value	<u>\$ 204,173</u>	<u>\$ 18,814</u>

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 \$ 543,054

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 258,015

Installment purchase originally issued on November 18, 2011 for
\$42,236, due in annual payments of \$8,966, including interest at
2.13%, payable to BB&T 25,825

Total installment purchases \$ 826,894

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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 November 10, 2010, for \$79,986, due in annual payments of \$21,672, plus interest at 3.250%, payable to Fidelity Bank \$ 20,967

Bond Anticipation Note

A bond anticipation note was issued to cover costs of improvements to the water and sewer fund

Business-Type Activities:

Bond anticipation note originally issued on November 20, 2013, for \$1,056,000, due in one payment of \$1,056,000, plus interest at 1.11%, payable to BB&T \$ 1,056,000

Long-Term Obligation Activity

The following is a summary of changes in the Town's long-term obligations as of June 30, 2014:

	<u>Balance July 1, 2013</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2014</u>	<u>Current Portion</u>
Governmental Activities:					
Capital lease obligations	\$ 168,704	\$ -	\$ 66,185	\$ 102,519	\$ 49,802
Installment purchases	859,166	-	32,272	826,894	33,495
Compensated absences	<u>62,585</u>	<u>3,618</u>	<u>23,696</u>	<u>42,507</u>	<u>24,000</u>
Total governmental activities	<u>\$ 1,090,455</u>	<u>\$ 3,618</u>	<u>\$ 122,153</u>	<u>\$ 971,920</u>	<u>\$ 107,297</u>
Business-Type Activities:					
Capital lease obligations	\$ 20,834	\$ -	\$ 6,506	\$ 14,328	\$ 6,935
Notes payable	89,907	-	68,940	20,967	20,967
Bond anticipation note	-	1,056,000	-	1,056,000	1,056,000
Compensated absences	<u>13,394</u>	<u>4,139</u>	<u>1,045</u>	<u>16,488</u>	<u>1,000</u>
Total business-type activities	<u>\$ 124,135</u>	<u>\$ 1,060,139</u>	<u>\$ 76,491</u>	<u>\$ 1,107,783</u>	<u>\$ 1,084,902</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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, 2014, amounts to approximately \$46,000,000.

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		Bond Anticipation Note		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015	\$ 49,802	\$ 9,992	\$ 33,495	\$ 36,989	\$ -	\$ -	\$ 83,297	\$ 46,981
2016	52,717	10,450	34,770	35,714	-	-	87,487	46,164
2017	-	-	36,096	34,388	-	-	36,096	34,388
2018	-	-	28,498	33,009	-	-	28,498	33,009
2019	-	-	29,743	31,763	-	-	29,743	31,763
2020-2024	-	-	169,390	138,142	-	-	169,390	138,142
2025-2029	-	-	156,670	98,783	-	-	156,670	98,783
2030-2034	-	-	106,668	70,667	-	-	106,668	70,667
2034-2038	-	-	134,525	42,809	-	-	134,525	42,809
2039-2043	-	-	97,039	15,370	-	-	97,039	15,370
Total	<u>\$ 102,519</u>	<u>\$ 20,442</u>	<u>\$ 826,894</u>	<u>\$ 537,634</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 929,413</u>	<u>\$ 558,076</u>

Business-Type Activities:								
2015	\$ 6,935	\$ 946	\$ 20,967	\$ 1,512	\$ 1,056,000	\$ 11,722	\$ 1,083,902	\$ 14,180
2016	7,393	488	-	-	-	-	7,393	488
Total	<u>\$ 14,328</u>	<u>\$ 1,434</u>	<u>\$ 20,967</u>	<u>\$ 1,512</u>	<u>\$ 1,056,000</u>	<u>\$ 11,722</u>	<u>\$ 1,091,295</u>	<u>\$ 14,668</u>

Deferred Inflows of Resources

The balance in deferred inflows on the fund statements at year-end are composed of the following elements:

	Unavailable Revenue
Taxes receivable (General Fund)	<u>\$ 19,497</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

Interfund Balances and Activity

Transfers to/from Other Funds

Transfers to/from other funds at June 30, 2014, consist of the following:

From the General Fund to the Water and Sewer Fund	<u>\$ 120,000</u>
---	-------------------

Transfers were to fund operations.

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, 2013 - July 1, 2014 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, 2014, the Town was a defendant to one lawsuit. In the opinion of the Town's management, the ultimate effect to these legal matters may have a material adverse effect on the Town's financial position.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2014

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.

Prior Period Adjustment

During the fiscal year ended June 30, 2014, the Town determined that certain unrestricted intergovernmental revenues that were subject to accrual in the General Fund as of June 30, 2013, on a modified accrual basis of accounting, had been omitted, thus understating prior year revenues. Therefore, an adjustment to beginning fund balance has been recorded to account for those accruals, the net effect of which increased beginning fund balance by \$34,702.

On-Behalf Payments for Fringe Benefits and Salaries

Firemen's Relief Fund

The Town and the members of the Town's fire department each appoint two members to the five-member local Board of Trustees for the Firemen's Relief Fund. The State Insurance Commissioner appoints one additional member to the local Board of Trustees. The Firemen's Relief Fund is funded by a portion of the fire and lightning insurance premiums which insurers remit to the State. The State passes these monies to the local Board of the Firemen's Relief Fund. The funds are to provide eligible retired firefighters either a one-time payment or annuity. For fiscal year ended June 30, 2014, the Town of Carthage has recognized on-behalf payments for pension contributions made by the State as a revenue and an expenditure in the amount of \$3,994 for eleven employed firefighters who perform firefighting duties for the Town's fire department. The employees elected to be members of the Firemen and Rescue Workers' Pension Fund, a cost-sharing, multiple-employer public employee retirement system established and administered by the State of North Carolina. The Plan is funded by a \$10 monthly contribution paid by each member, investment income, and a State appropriation. The Firemen's Relief Fund does not issue separate audited financial statements. Instead, the local Board of Trustees files an annual financial report with the State Firemen's Association. This report can be obtained from the Association at 323 West Jones Street, Suite 401, Raleigh, North Carolina 27603.

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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, 2014**

	2014	
	Budget	Actual
		Variance Over/Under
Revenues:		
Ad Valorem Taxes:		
Taxes		\$ 1,161,897
Penalties		8,440
Total	\$ 1,097,174	1,170,337
		\$ 73,163
Other Taxes and Licenses:		
Local option sales taxes		472,718
Privilege licenses		6,305
Motor vehicle license		7,453
Rental tax revenue		550
Total	477,680	487,026
		9,346
Unrestricted Intergovernmental Revenues:		
Beer and wine tax		9,842
Utility franchise tax		147,816
Other		5,441
Total	160,200	163,099
		2,899
Restricted Intergovernmental Revenues:		
Powell Bill		75,140
Fire/safety - Carthage Rescue Squad		39,500
Other		152,872
Total	342,205	267,512
		(74,693)
Sales and Services:		
Sanitary landfill participation fees	142,200	133,591
		(8,609)
Investment Earnings	1,500	1,040
		(460)
Miscellaneous:		
Court costs and fees		2,865
Cable vision fees		2,772
Utility leases		51,777
Miscellaneous		37,819
Moore County ABC revenue		558

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, 2014**

	2014	
	Budget	Variance Over/Under
Police forfeitures		530
Administrative charge - Fire District		12,000
Donations		200
Insurance proceeds		1,721
Historical proceeds		318
Cemeteries		1,000
Appearance Committee		3,779
Rent		4,800
Total	102,038	18,101
Total revenues	2,322,997	19,747
Expenditures:		
General Government:		
Governing Body:		
Salaries and employee benefits		9,689
Operating expenditures		4,653
Total	17,650	3,308
Administration:		
Salaries and employee benefits		153,090
Operating expenditures		236,431
Capital outlay		458
Total	436,336	46,357
Finance:		
Salaries and employee benefits		66,544
Operating expenditures		2,586
Total	69,350	220
Electrions		
Contracted services	5,750	1,208
Legal:		
Contracted services	8,800	914

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, 2014**

	2014		
	Budget	Actual	Variance Over/Under
Planning and zoning:			
Operating expenditures	20,450	18,877	1,573
Public Buildings:			
Operating expenditures		78,381	
Capital outlay		44,689	
Total	131,518	123,070	8,448
Appearance:			
Operating expenditures		4,840	
Total	5,454	4,840	614
Total general government	695,308	632,666	62,642
Public Safety:			
Police:			
Salaries and employee benefits		586,822	
Vehicle Maintenance		5,594	
Operating expenditures		74,914	
Capital outlay		9,316	
Total	702,200	676,646	25,554
Fire:			
Salaries and employee benefits		281,452	
Vehicle Maintenance		42,153	
Operating expenditures		120,196	
Capital outlay		65,848	
Total	515,907	509,649	6,258
Total public safety	1,218,107	1,186,295	31,812
Street and Sanitation:			
Street and Highways:			
Salaries and employee benefits		149,819	
Vehicle maintenance		7,719	
Street lights		73,575	
Contracted services		10,801	
Operating expenditures		32,598	
Total	300,921	274,512	26,409

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, 2014**

	2014		
	Budget	Actual	Variance Over/Under
Powell Bill:			
Salaries and employee benefits		24,415	
Contracted services		19,249	
Operating expenditures		33,795	
Total	92,755	77,459	15,296
Sanitation:			
Contracted services		154,503	
Operating expenditures		1,444	
Total	156,235	155,947	288
Total street and sanitation	549,911	507,918	41,993
Cultural and Recreation:			
Parks and Recreation:			
Operating expenditures		8,756	
Capital outlay		3,097	
Total	13,540	11,853	1,687
Cemeteries			
Operating expenditures		4,131	
Total	5,900	4,131	1,769
Total cultural and recreation	19,440	15,984	3,456
Debt Service:			
Principal retirement		98,457	
Interest and fees		47,766	
Total debt service	147,248	146,223	1,025
Total expenditures	2,630,014	2,489,086	140,928
Revenues over (under) expenditures	(307,017)	(146,342)	160,675

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, 2014**

	2014	
	Budget	Actual
		Variance Over/Under
Other Financing Sources (Uses):		
Transfer (out)	(120,000)	(120,000)
Appropriated fund balance	427,017	-
Total other financing sources (uses)	307,017	(120,000)
Net change in fund balance	\$ -	(266,342)
Fund Balance:		
Beginning of year - July 1		1,322,296
Restatement		34,702
Beginning of year - July 1, as restated		1,356,998
End of year - June 30		\$ 1,090,656

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, 2014

	2014		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Revenues:			
Investment earnings	\$ 200	\$ 63	\$ (137)
Other Financing Sources (Uses):			
Transfer to General Fund	<u>(200)</u>	<u>-</u>	<u>200</u>
Net change in fund balance	<u>\$ -</u>	<u>63</u>	<u>\$ 63</u>
Fund Balance:			
Beginning of year - July 1		<u>75,525</u>	
End of year - June 30		<u>\$ 75,588</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, 2014**

	2014		
	Budget	Actual	Variance Over/Under
Revenues:			
Operating revenues:			
Charges for services		\$ 997,498	
Tap fees		76,525	
Total operating revenues	\$ 1,059,315	1,074,023	\$ 14,708
Non-operating revenues:			
Miscellaneous		54,211	
Interest earnings		241	
Total non-operating revenues	33,087	54,452	21,365
Total revenues	1,092,402	1,128,475	36,073
Expenditures:			
Operating expenditures:			
Water and sewer administration		76,824	
Water operations		531,532	
Water maintenance		41,709	
Sewer operations		412,471	
Sewer maintenance		142,943	
Total water and sewer operations	1,187,443	1,205,479	(18,036)
Debt principal payment		75,446	
Debt interest payment		4,377	
Total debt services	101,477	79,823	21,654
Capital Outlay:			
Water		52,959	
Total capital outlay	74,745	52,959	21,786
Total expenditures	1,363,665	1,338,261	25,404
Revenues over (under) expenditures	(271,263)	(209,786)	61,477
Other Financing Sources (Uses):			
Transfer from other funds	120,000	120,000	-
Transfer to other funds (intrafund)	(45,000)	(45,000)	-
Appropriated fund balance	196,263	-	(196,263)
Total other financing sources (uses)	271,263	75,000	(196,263)
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ (134,786)	\$ (134,786)

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, 2014**

	2014	
	Budget	Actual
		Variance Over/Under
Reconciliation from Budgetary Basis		
(Modified Accrual) to Full Accrual Basis:		
Revenues and other financing sources over		
(under) expenditures and other financing uses		\$ (134,786)
Reconciling items:		
Capital assets purchased		30,615
Depreciation		(289,015)
Principal retirement		75,446
Increase in accrued compensated absences		(3,094)
Investment earnings from capital projects		66
Non-capitalized capital project expense		(12,640)
Accrued interest		(3,065)
Intrafund transfers		<u>45,000</u>
Change in net position		<u>\$ (291,473)</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, 2014**

	2014		
	Budget	Actual	Variance Over/Under
Expenditures:			
Engineering	\$ 45,000	\$ -	\$ 45,000
Other Financing Sources (Uses):			
Transfer from Water and Sewer Fund	45,000	45,000	-
Net change in fund balance	\$ -	\$ 45,000	\$ 45,000

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, 2014

	Actual		
	Project		Total
	Authorization	Prior Years	To Date
Revenues:			
Restricted Intergovernmental:			
USDA Grant	\$ 580,000	\$ -	\$ -
Investment earnings	-	-	66
Total revenues	580,000	-	66
Expenditures:			
Administration	1,000	-	-
Engineering	1,605,000	-	916,089
Total expenditures	1,606,000	-	916,089
Debt Service:			
Interest and other charges	110,000	-	12,640
Revenues over (under) expenditures	(1,136,000)	-	(928,663)
Other Financing Sources (Uses):			
Proceeds from debt	1,056,000	-	1,056,000
Transfer from Capital Reserve Fund	80,000	-	-
Total other financing sources (uses)	1,136,000	-	1,056,000
Net change in fund balance	\$ -	\$ -	\$ 127,337

TOWN OF CARTHAGE, NORTH CAROLINA**SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2014**

Fiscal Year	Balance July 1, 2013	Additions	Collections and Credits	Balance June 30, 2014
2013-2014	\$ -	\$ 1,167,180	\$ 1,156,165	\$ 11,015
2012-2013	14,564	-	11,046	3,518
2011-2012	5,228	-	3,168	2,060
2010-2011	4,447	-	2,773	1,674
2009-2010	2,101	-	558	1,543
2008-2009	1,633	-	173	1,460
2007-2008	2,145	-	160	1,985
2006-2007	1,448	-	88	1,360
2005-2006	1,226	-	48	1,178
2004-2005	1,206	-	41	1,165
2003-2004	1,044	-	1,044	-
Total	<u>\$ 35,042</u>	<u>\$ 1,167,180</u>	<u>\$ 1,175,264</u>	<u>26,958</u>
Less: allowance for uncollectible accounts				
General Fund				<u>(7,461)</u>
Ad valorem taxes receivable, net				
General Fund				<u>\$ 19,497</u>
Reconcilement with Revenues:				
Ad valorem taxes - General Fund				\$ 1,170,337
Reconciling Items:				
Amount written off per statute				1,044
Interest and lien advertising collected				(8,440)
Miscellaneous				<u>12,323</u>
Total collections and credits				<u>\$ 1,175,264</u>

TOWN OF CARTHAGE, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY - TOWN-WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2014

	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	\$ 231,963,500	\$ 0.400	\$ 927,854	\$ 839,369	\$ 88,485
Fire tax	384,150,000	0.064	245,856	215,007	30,849
Total	616,113,500		1,173,710	1,054,376	119,334
Abatements	(1,632,500)	0.400	(6,530)	(2,962)	(3,568)
Total property valuation	<u>\$ 614,481,000</u>				
Net Levy			1,167,180	1,051,414	115,766
Uncollected taxes, June 30, 2014			11,015	7,168	3,847
Current Year's Taxes Collected			<u>\$ 1,156,165</u>	<u>\$ 1,044,246</u>	<u>\$ 111,919</u>
Current Levy Collection Percentage			<u>99.06%</u>	<u>99.32%</u>	<u>96.68%</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, 2014, 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 December 10, 2014.

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.

Our consideration of internal control was for limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies 2014-001, 2014-002, and 2014-003, described in the accompanying Schedule of Findings and Questioned Costs, to be material weaknesses.

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

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 no instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards*.

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 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
December 10, 2014

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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, 2014. The Town of Carthage's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

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.

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, 2014.

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
December 10, 2014

TOWN OF CARTHAGE, NORTH CAROLINA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2014

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? Yes X 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, 2014 is:

<u>Program Name</u>	<u>CFDA#</u>
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	<u>\$300,000</u>
Auditee qualified as low-risk auditee?	No

TOWN OF CARTHAGE, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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

Finding 2014-001:

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

Responsible Official's Response: Management concurs and will diligently review financial data to ensure agreement with audited financial statements.

TOWN OF CARTHAGE, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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

Finding 2014-002:

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

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

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

Effect: Adequate segregation of duties is not in place.

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

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. The Town Council members should provide some of these controls.

Name of Contact Person: Kesha Matthews, Finance Officer

Responsible Official's 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 AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

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

Finding 2014-003:

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

Condition: An error was discovered with regard to intergovernmental revenues. The Town failed to book a receivable as of June 30, 2013, for telecommunications tax. As of June 30, 2014, beginning fund balance for the General Fund and net position for governmental activities increased by \$34,702.

Context: While performing testing of General Fund revenues, we noted the above condition.

Effect: For the statements affected, the prior year financial statements were misstated.

Cause: Inadequate monitoring of receivables

Recommendation: Careful review of the audited financial statements should be reiterated to prevent prior period adjustments in the future.

Name of Contact Person: Kesha Matthews, Finance Officer

Responsible Official's 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
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2014

Finding 2013-001

Status: Repeated as Finding 2014-001.

Finding 2013-002

Status: Repeated as Finding 2014-002.

Finding 2013-003

Status: Corrected.

Finding 2013-004

Status: Corrected.

TOWN OF CARTHAGE, NORTH CAROLINA

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS FOR THE YEAR ENDED JUNE 30, 2014

<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	\$ 928,729	\$ -
<u>U.S. Department of Homeland Security</u>			
Passed through Federal Emergency Management Agency:			
SAFER Grant	97.083	123,867	-
Total Federal Awards		1,052,596	-
State Awards:			
<u>N.C. Department of Transportation</u>			
Powell Bill		-	77,459
Total Federal and State Awards		\$ 1,052,596	\$ 77,459

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

1. Basis of Presentation

The accompanying Schedule of Expenditures of Federal and State 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.