

**TOWN OF CARTHAGE
NORTH CAROLINA**

AUDITED FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2013

**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, 2013

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TOWN OF CARTHAGE, NORTH CAROLINA

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

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, 2013, 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, 2013, 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, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide 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, economic, 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 budget and actual schedules and supplemental ad valorem tax schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budget and actual schedules and supplemental ad valorem tax schedules 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 budget and actual schedule and supplemental ad valorem tax schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2013 on our consideration of the Town of Carthage's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town of Carthage's internal control over financial reporting and compliance.

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 8, 2013

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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, 2013. 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

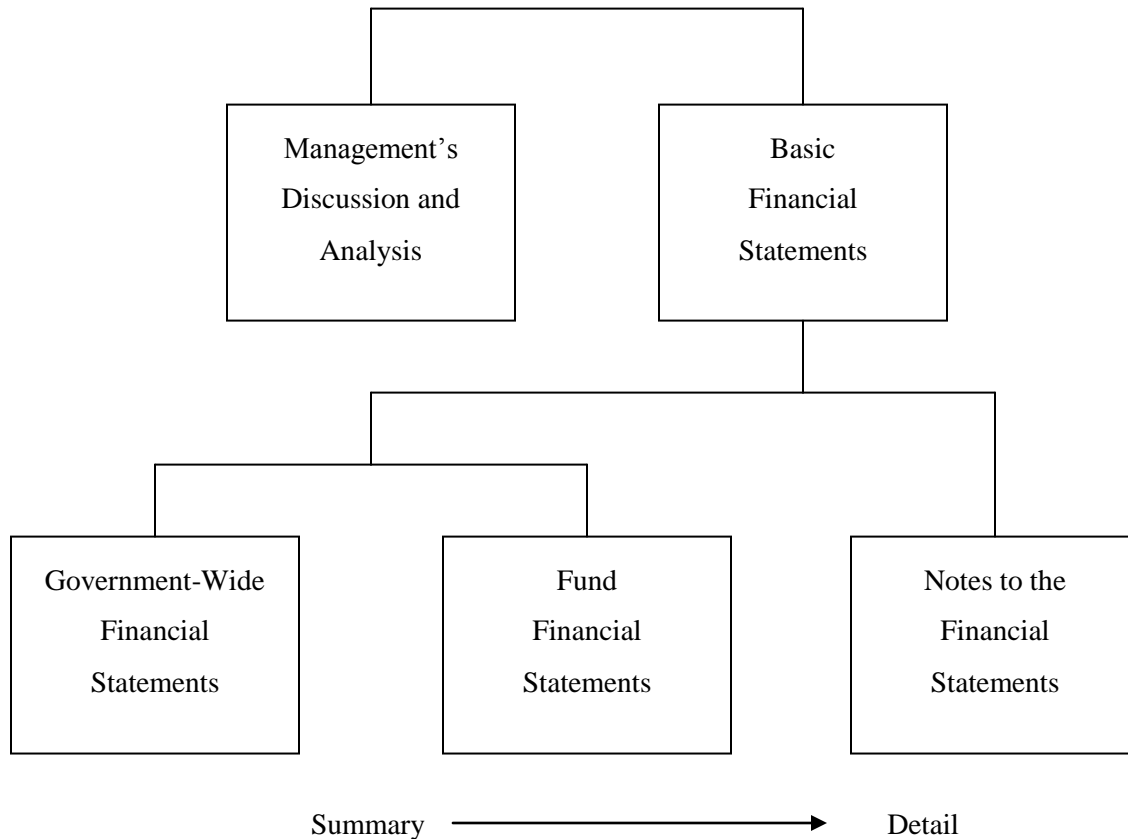
- The Town of Carthage's assets exceeded its liabilities at the close of the fiscal year by \$9,050,073 (net position).
- The Town's total net position decreased by \$314,563 with approximately 79 percent of the decrease coming from business-type activities.
- As of the close of the current fiscal year, the Town's governmental funds reported combined ending fund balances of \$1,397,821 with a net decrease of \$27,570 in fund balance. Approximately 18 percent of this total amount, or \$251,376, is non-spendable or restricted.
- At the end of the current fiscal year, available fund balance for the General Fund was \$1,202,378, or 55 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 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. A budgetary comparison statement has been provided for the General Fund, and the Perpetual Care Fund to demonstrate compliance with this budget.

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, over time, as a useful indicator of a government's financial condition. The Town's assets exceeded liabilities by \$9,050,073 at the close of the most recent fiscal year. The Town's net position decreased by \$314,563 for the fiscal year ended June 30, 2013.

A portion of the Town's net position (80 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 (3 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position (\$1,542,117) may be used to meet the government's ongoing obligation to citizens and creditors.

Town of Carthage's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Assets:						
Current and other assets	\$ 1,527,903	\$ 1,556,392	\$ 530,815	\$ 610,974	\$ 2,058,718	\$ 2,167,366
Capital assets, net	<u>2,294,450</u>	<u>2,246,527</u>	<u>6,100,741</u>	<u>6,325,796</u>	<u>8,395,191</u>	<u>8,572,323</u>
Total assets	<u>3,822,353</u>	<u>3,802,919</u>	<u>6,631,556</u>	<u>6,936,770</u>	<u>10,453,909</u>	<u>10,739,689</u>
Liabilities:						
Long-term liabilities,						
outstanding	978,999	978,261	45,350	98,670	1,024,349	1,076,931
Other liabilities	<u>229,585</u>	<u>215,052</u>	<u>149,902</u>	<u>151,812</u>	<u>379,487</u>	<u>366,864</u>
Total liabilities	<u>1,208,584</u>	<u>1,193,313</u>	<u>195,252</u>	<u>250,482</u>	<u>1,403,836</u>	<u>1,443,795</u>
Net position:						
Net investment in						
capital assets	1,266,580	1,381,201	5,990,000	6,167,598	7,256,580	7,548,799
Restricted	251,376	267,434	-	-	251,376	267,434
Unrestricted	<u>1,095,813</u>	<u>1,029,713</u>	<u>446,304</u>	<u>518,690</u>	<u>1,542,117</u>	<u>1,548,403</u>
Total net position	<u>\$ 2,613,769</u>	<u>\$ 2,678,348</u>	<u>\$ 6,436,304</u>	<u>\$ 6,686,288</u>	<u>\$ 9,050,073</u>	<u>\$ 9,364,636</u>

Town of Carthage's Changes in Net Position

Figure 3

	Governmental		Business-Type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 141,983	\$ 140,868	\$ 1,042,668	\$ 1,026,088	\$ 1,184,651	\$ 1,166,956
Operating grants and contributions	125,381	256,364	-	-	125,381	256,364
Capital grants and contributions	-	387,724	-	-	-	387,724
General revenues:						
Property taxes	1,102,438	1,096,077	-	-	1,102,438	1,096,077
Other taxes	478,785	461,618	-	-	478,785	461,618
Other	286,750	242,603	435	2,407	287,185	245,010
Total revenues	<u>2,135,337</u>	<u>2,585,254</u>	<u>1,043,103</u>	<u>1,028,495</u>	<u>3,178,440</u>	<u>3,613,749</u>
Expenses:						
General government	562,186	802,680	-	-	562,186	802,680
Public safety	1,043,405	928,521	-	-	1,043,405	928,521
Streets and sanitation	492,609	551,741	-	-	492,609	551,741
Cultural and recreation	12,961	9,503	-	-	12,961	9,503
Interest on long-term debt	8,755	44,716	-	-	8,755	44,716
Water and sewer	-	-	1,373,087	1,196,725	1,373,087	1,196,725
Total expenses	<u>2,119,916</u>	<u>2,337,161</u>	<u>1,373,087</u>	<u>1,196,725</u>	<u>3,493,003</u>	<u>3,533,886</u>
Increase in net position before transfers	<u>15,421</u>	<u>248,093</u>	<u>(329,984)</u>	<u>(168,230)</u>	<u>(314,563)</u>	<u>79,863</u>
Transfers	<u>(80,000)</u>	<u>-</u>	<u>80,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
Increase (decrease) in net position	(64,579)	248,093	(249,984)	(168,230)	(314,563)	79,863
Net Position:						
Beginning of year, July 1	<u>2,678,348</u>	<u>2,430,255</u>	<u>6,686,288</u>	<u>6,854,518</u>	<u>9,364,636</u>	<u>9,284,773</u>
End of year, June 30	<u>\$ 2,613,769</u>	<u>\$ 2,678,348</u>	<u>\$ 6,436,304</u>	<u>\$ 6,686,288</u>	<u>\$ 9,050,073</u>	<u>\$ 9,364,636</u>

Governmental Activities. Governmental activities decreased the Town's net position by \$64,579. Key elements of this decrease are as follows:

- Transfer of \$80,000 to the water and sewer fund to meet the Town's obligation in compliance for receiving USDA loan/grant for sewer improvement project, net of increased operating costs and capital related expenditures.
- Decrease in General Government expenses from previous audit is due to \$150,000 Connect Inc., grant and \$4,632 election expenses not paid in 2013.
- Net decrease in Operating Grants and Contributions is due to not receiving \$150,000 Connect Inc. grant, increase in Powell Bill funding, receiving a \$7,500 grant from the Governor's Crime Commission, and increase in funding from Moore County to support the Rescue Squad.

Business-Type Activities. Business-type activities decreased the Town of Carthage's net position by \$249,984. 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 two sewer pump stations and engineering expenses related to the repair of sewer problems in the Tyson Woods neighborhood.

Financial Analysis of the Town's Funds

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

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

The General Fund is the chief operating fund of the Town of Carthage. At the end of the current fiscal year, available fund balance of the General Fund was \$1,202,378, and total fund balance was \$1,322,296. The Town currently has available fund balance of 55.0% of General Fund expenditures and transfers to other funds, less long-term debt issued, while total fund balance represents 61.0% of the same amount.

At June 30, 2013, the governmental funds of the Town of Carthage reported a combined fund balance of \$1,397,821, with a net decrease in fund balance of \$27,570. Included in this change in fund balance are a decrease in the General Fund of \$27,831 and an increase in the Perpetual Care Fund of \$261.

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 \$446,304. The change in net position was a decrease of \$249,984. 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, 2013 totals \$8,395,191 (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 purchase of fleet vehicles for the police department.

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

Figure 4

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Land	\$ 304,650	\$ 304,650	\$ 124,787	\$ 124,787	\$ 429,437	\$ 429,437
Building and improvements	974,941	1,009,944	1,429,301	1,480,245	2,404,242	2,490,189
Furniture and equipment	1,014,859	931,933	-	-	1,014,859	931,933
Machinery and equipment	-	-	1,319,828	1,364,352	1,319,828	1,364,352
Water and sewer improvements	-	-	3,226,825	3,356,412	3,226,825	3,356,412
Capital assets, net	<u>\$ 2,294,450</u>	<u>\$ 2,246,527</u>	<u>\$ 6,100,741</u>	<u>\$ 6,325,796</u>	<u>\$ 8,395,191</u>	<u>\$ 8,572,323</u>

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

Town of Carthage's Long-Term Debt

Figure 5

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Capital lease obligations	\$ 168,704	\$ 37,516	\$ 20,834	\$ -	\$ 189,538	\$ 37,516
Installment purchases	859,166	888,284	-	-	859,166	888,284
Notes payable	-	-	89,907	158,198	89,907	158,198
Total	<u>\$ 1,027,870</u>	<u>\$ 925,800</u>	<u>\$ 110,741</u>	<u>\$ 158,198</u>	<u>\$ 1,138,611</u>	<u>\$ 1,083,998</u>

The Town of Carthage's total debt increased by \$54,613 during the past fiscal year due to the issuance of two new capital lease agreements.

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 \$44,200,000.

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

Economic Factors and Next Year's Budgets and Rates

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

The Town of Carthage continues to see positive growth and tax base with the addition of both commercial and residential development. The new State Employee's Credit Union recently opened, along with the new Moore County Public Safety Center, which houses the County Jail, 911 Call Center and other county functions. Forest Ridge subdivision continues to develop with approval of the preliminary plat and construction plans for Part 1 of Phase III, which will add 64 lots on 65 acres.

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental Activities. The Town's property tax rate will remain at the \$.40 per \$100 valuation. This would be the twenty-second consecutive year that the Town has not increased property taxes. Overall, the Town's tax base is estimated at \$220,000,000. The \$.40 tax rate is projected to generate approximately \$865,091 in revenues. Tax revenues are estimated to be \$16,667, 1.96%, more than Fiscal Year 2012-13 projected revenues. There are no increases in any fees for governmental funds. Based on the current economic situation and decreased revenue projections from the State, budgeted expenditures in the General Fund are flat from the prior year. Interest rates are still low and provide a limited revenue source.

Budgeted expenditures in the General Fund will increase by \$69,511, 3.10% over Fiscal Year 2012-13 budgeted expenses. This increase is due to the increased cost of departmental operations, expenses related to local elections, and an increase in the Governing Body and Finance Travel/Training expenses.

Business-Type Activities. The Water and Sewer Fund, for its basic operations, will again operate on its own. Water revenues in the Town are expected to increase due to continued growth in the customer base and a sewer rate increase. The rate increase is to offset the rate increase from Moore County Wastewater Control and to generate additional revenue for the new sewer improvement project debt service payments. General operating expenses 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.

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BASIC FINANCIAL STATEMENTS

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TOWN OF CARTHAGE, NORTH CAROLINA

STATEMENT OF NET POSITION
JUNE 30, 2013

	Governmental Activities	Business-Type Activities	Total Primary Government
Assets:			
Cash and cash equivalents	\$ 1,336,924	\$ 363,017	\$ 1,699,941
Receivables:			
Taxes receivable, net	26,397	-	26,397
Accounts receivable, net	119,920	147,006	266,926
Cash and cash equivalents - restricted	44,662	20,792	65,454
Capital assets:			
Non-depreciable capital assets	304,650	124,787	429,437
Other capital assets, net of depreciation	1,989,800	5,975,954	7,965,754
Total assets	<u>3,822,353</u>	<u>6,631,556</u>	<u>10,453,909</u>
Liabilities:			
Accounts payable and accrued liabilities	103,685	50,325	154,010
Accrued interest payable	14,444	-	14,444
Current portion of compensated absences	13,000	3,349	16,349
Current portion of long-term debt	98,456	75,436	173,892
Liabilities to be paid from restricted assets:			
Customer deposits	-	20,792	20,792
Long-term liabilities:			
Non-current portion of long-term debt	929,414	35,305	964,719
Non-current portion of compensated absences	49,585	10,045	59,630
Total liabilities	<u>1,208,584</u>	<u>195,252</u>	<u>1,403,836</u>
Net Position:			
Net investment in capital assets	1,266,580	5,990,000	7,256,580
Restricted for:			
Stabilization by State statute	119,920	-	119,920
Public safety	18,815	-	18,815
Streets	44,662	-	44,662
Cemetery perpetual maintenance	67,979	-	67,979
Unrestricted	<u>1,095,813</u>	<u>446,304</u>	<u>1,542,117</u>
Total net position	<u>\$ 2,613,769</u>	<u>\$ 6,436,304</u>	<u>\$ 9,050,073</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, 2013

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 562,186	\$ -	\$ 72,461	\$ -
Public safety	1,043,405	-	52,920	-
Street and sanitation	492,609	141,983	-	-
Culture and recreation	12,961	-	-	-
Debt service - interest	8,755	-	-	-
Total governmental activities	2,119,916	141,983	125,381	-
Business-Type Activities:				
Water and sewer	1,373,087	1,042,668	-	-
Total business-type activities	1,373,087	1,042,668	-	-
Total primary government	3,493,003	1,184,651	125,381	-

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

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
\$ (489,725)	\$ -	\$ (489,725)
(990,485)	-	(990,485)
(350,626)	-	(350,626)
(12,961)	-	(12,961)
(8,755)	-	(8,755)
<u>(1,852,552)</u>	<u>-</u>	<u>(1,852,552)</u>
<u>-</u>	<u>(330,419)</u>	<u>(330,419)</u>
<u>-</u>	<u>(330,419)</u>	<u>(330,419)</u>
<u>(1,852,552)</u>	<u>(330,419)</u>	<u>(2,182,971)</u>
1,102,438	-	1,102,438
478,785	-	478,785
141,001	-	141,001
143,155	-	143,155
2,594	435	3,029
<u>1,867,973</u>	<u>435</u>	<u>1,868,408</u>
<u>(80,000)</u>	<u>80,000</u>	<u>-</u>
<u>1,787,973</u>	<u>80,435</u>	<u>1,868,408</u>
(64,579)	(249,984)	(314,563)
<u>2,678,348</u>	<u>6,686,288</u>	<u>9,364,636</u>
<u>\$ 2,613,769</u>	<u>\$ 6,436,304</u>	<u>\$ 9,050,073</u>

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

TOWN OF CARTHAGE, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2013

	Major General Fund	Nonmajor Perpetual Care Fund	Total Governmental Funds
Assets:			
Cash and cash equivalents	\$ 1,261,401	\$ 75,523	\$ 1,336,924
Taxes receivable, net	26,397	-	26,397
Accounts receivable, net	22,159	-	22,159
Due from other governments	97,759	2	97,761
Restricted cash	44,662	-	44,662
Total assets	<u>\$ 1,452,378</u>	<u>\$ 75,525</u>	<u>\$ 1,527,903</u>
Liabilities, Deferred Inflows of Resources, and Fund Balances:			
Liabilities:			
Accounts payable and accrued liabilities	\$ 103,685	\$ -	\$ 103,685
Total liabilities	<u>103,685</u>	<u>-</u>	<u>103,685</u>
Deferred Inflows of Resources:			
Property taxes receivable	26,397	-	26,397
Total deferred inflows of resources	<u>26,397</u>	<u>-</u>	<u>26,397</u>
Fund Balances:			
Non-spendable, not in spendable form:			
Perpetual maintenance	-	67,979	67,979
Restricted:			
Stabilization by State statute	119,918	2	119,920
Streets	44,662	-	44,662
Public safety	18,815		18,815
Assigned:			
USDA	35,467	-	35,467
Subsequent year's expenditures	198,910	-	198,910
Perpetual care	-	7,544	7,544
Unassigned	904,524	-	904,524
Total fund balances	<u>1,322,296</u>	<u>75,525</u>	<u>1,397,821</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,452,378</u>	<u>\$ 75,525</u>	

Amounts reports 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.	2,294,450
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.	(1,104,899)
Liabilities for earned revenues considered deferred inflows of resources in fund statements.	<u>26,397</u>
Net position of governmental activities	<u>\$ 2,613,769</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, 2013

	<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	\$ 1,109,372	\$ -	\$ 1,109,372
Other taxes and licenses	478,785	-	478,785
Unrestricted intergovernmental	141,001	-	141,001
Restricted intergovernmental	125,381	-	125,381
Sales and services	141,983	-	141,983
Investment earnings	2,309	285	2,594
Miscellaneous	143,155	-	143,155
Total revenues	<u>2,141,986</u>	<u>285</u>	<u>2,142,271</u>
Expenditures:			
Current:			
General government	496,631	24	496,655
Public safety	1,146,735	-	1,146,735
Street and sanitation	492,609	-	492,609
Culture and recreation	12,961	-	12,961
Debt service:			
Principal	103,299	-	103,299
Interest	42,951	-	42,951
Total expenditures	<u>2,295,186</u>	<u>24</u>	<u>2,295,210</u>
Revenues over (under) expenditures	<u>(153,200)</u>	<u>261</u>	<u>(152,939)</u>
Other Financing Sources (Uses):			
Transfers (out)	(80,000)	-	(80,000)
Capital lease obligations issued	205,369	-	205,369
Total other financing sources (uses)	<u>125,369</u>	<u>-</u>	<u>125,369</u>
Net change in fund balances	(27,831)	261	(27,570)
Fund Balances:			
Beginning of year - July 1	<u>1,350,127</u>	<u>75,264</u>	<u>1,425,391</u>
End of year - June 30	<u>\$ 1,322,296</u>	<u>\$ 75,525</u>	<u>\$ 1,397,821</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, 2013

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)	\$ (27,570)
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.	(6,934)
Expenses related to compensated absences, OPEB, and Law Enforcement Officers' Separation Allowance that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(10,124)
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.	269,473
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(205,712)
Loss on the disposal of capital assets during the year, not recognized on the modified accrual basis	(15,838)
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.	103,299
Accrued interest payable is not shown on the governmental funds statement; however, in the Statement of Activities, the change in accrued interest is reflected.	34,196
Proceeds from issuance of debt are reported as revenues in the governmental funds statement. However, in the Statement of Activities, they are not a revenue, rather they are an increase in liabilities.	<u>(205,369)</u>
Change in net position of governmental activities (Exhibit B)	<u>\$ (64,579)</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, 2013

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Over/Under
Revenues:				
Ad valorem taxes	\$ 1,079,276	\$ 1,079,276	\$ 1,109,372	\$ 30,096
Other taxes and licenses	480,680	480,680	478,785	(1,895)
Unrestricted intergovernmental	150,420	165,420	141,001	(24,419)
Restricted intergovernmental	102,150	112,150	125,381	13,231
Sales and services	140,000	140,000	141,983	1,983
Investment earnings	2,300	2,300	2,309	9
Miscellaneous	84,675	110,502	143,155	32,653
Total revenues	<u>2,039,501</u>	<u>2,090,328</u>	<u>2,141,986</u>	<u>51,658</u>
Expenditures:				
Current:				
General government	504,804	528,619	496,631	31,988
Public safety	1,033,294	1,273,272	1,146,735	126,537
Street and sanitation	529,454	529,454	492,609	36,845
Cultural and recreation	16,300	19,140	12,961	6,179
Debt service:				
Principal	105,057	105,057	103,299	1,758
Interest	43,000	43,000	42,951	49
Total expenditures	<u>2,231,909</u>	<u>2,498,542</u>	<u>2,295,186</u>	<u>203,356</u>
Revenues over (under) expenditures	<u>(192,408)</u>	<u>(408,214)</u>	<u>(153,200)</u>	<u>255,014</u>
Other Financing Sources (Uses):				
Capital lease obligations issued	-	205,369	205,369	-
Fund balance appropriated	272,408	282,845	-	(282,845)
Transfer (out)	(80,000)	(80,000)	(80,000)	-
Total other financing sources (uses)	<u>192,408</u>	<u>408,214</u>	<u>125,369</u>	<u>(282,845)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	(27,831)	<u>\$ (27,831)</u>
Fund Balance:				
Beginning of year - July 1			<u>1,350,127</u>	
End of year - June 30			<u>\$ 1,322,296</u>	

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

TOWN OF CARTHAGE, NORTH CAROLINA

STATEMENT OF FUND NET POSITION
PROPRIETARY FUNDS
JUNE 30, 2013

	<u>Water and Sewer Fund</u>
Assets:	
Current assets:	
Cash and investments	\$ 363,017
Customer receivables, net	137,346
Other	95
Due from other governments	9,565
Restricted cash and investments	<u>20,792</u>
Total current assets	<u>530,815</u>
Non-current assets:	
Non-depreciable capital assets	124,787
Other capital assets, net of depreciation	<u>5,975,954</u>
Total non-current assets	<u>6,100,741</u>
Total assets	<u>6,631,556</u>
Liabilities and Net Position:	
Liabilities:	
Current liabilities:	
Accounts payable and accrued liabilities	50,325
Current portion of compensated absences	3,349
Current portion of long-term debt	75,436
Liabilities to be paid from restricted assets:	
Customer deposits	<u>20,792</u>
Total current liabilities	<u>149,902</u>
Non-current liabilities:	
Non-current portion of long-term debt	35,305
Compensated absences	<u>10,045</u>
Total non-current liabilities	<u>45,350</u>
Total liabilities	<u>195,252</u>
Net Position:	
Net investment in capital assets	5,990,000
Unrestricted	<u>446,304</u>
Total net position	<u>\$ 6,436,304</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 FUNDS
FOR THE YEAR ENDED JUNE 30, 2013

	<u>Water and Sewer Fund</u>
Operating Revenues:	
Charges for sales and services	\$ 967,314
Other operating revenue	<u>75,354</u>
Total operating revenues	<u>1,042,668</u>
Operating Expenses:	
Administration	180,461
Water operations	423,590
Sewer operations	473,575
Depreciation	<u>290,164</u>
Total operating expenses	<u>1,367,790</u>
Operating income (loss)	<u>(325,122)</u>
Non-Operating Revenues (Expenses):	
Interest and fees paid	(5,297)
Investment earnings	<u>435</u>
Total non-operating revenues (expenses)	<u>(4,862)</u>
Transfers from other funds	<u>80,000</u>
Change in net position	(249,984)
Net Position:	
Beginning of year - July 1	<u>6,686,288</u>
End of year - June 30	<u>\$ 6,436,304</u>

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

TOWN OF CARTHAGE, NORTH CAROLINA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 FOR THE YEAR ENDED JUNE 30, 2013

	<u>Water and Sewer Fund</u>
Cash Flows from Operating Activities:	
Cash received from customers	\$ 1,046,267
Cash paid for goods and services	(990,489)
Cash paid to employees for services	(94,268)
Customer deposits	488
Net cash provided (used) by operating activities	<u>(38,002)</u>
Cash Flows from Non-Capital Financing Activities:	
Transfers from other funds	<u>80,000</u>
Net cash provided (used) by non-capital financing activities	<u>80,000</u>
Cash Flows from Capital and Related Financing Activities:	
Proceeds from long-term debt	28,715
Principal paid on long-term debt	(76,172)
Interest paid on long-term debt	(5,297)
Acquisition of capital assets	(65,108)
Net cash provided (used) by capital and related financing activities	<u>(117,862)</u>
Cash Flows from Investing Activities:	
Investment earnings	<u>435</u>
Net increase (decrease) in cash and cash equivalents	(75,429)
Cash and cash equivalents - July 1	<u>459,238</u>
Cash and cash equivalents - June 30	<u>\$ 383,809</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ (325,122)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	290,164
Changes in assets and liabilities:	
(Increase) decrease in accounts receivable	4,729
Increase (decrease) in accounts payable and accrued liabilities	(8,261)
Increase (decrease) in customer deposits	488
Net cash provided (used) by operating activities	<u>\$ (38,002)</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, 2013

1. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is a municipal corporation 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 and investment earnings, result from non-exchange transactions or ancillary activities such as investment earnings.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

The Town reports the following major governmental fund:

General Fund. The General Fund is the general operating fund of the Town. It is used to account 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 and capital reserve fund. Financing of the Water and Sewer operations fund comes principally from charges to the users. 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.

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, entitlements, 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, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

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

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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 are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, 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, Moore County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town. For registered motor vehicles, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Moore County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period 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, 2013

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 and the Enterprise Fund. All annual appropriations lapse at the fiscal year-end. All budgets are prepared using the modified accrual basis of accounting.

Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations. All amendments must be approved by the governing board. During the year, several amendments to the original budget were necessary, the effects of which were not material. The budget ordinance must be adopted by July 1 of the fiscal year or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

E. Assets, Liabilities, Deferred 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 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 as determined by quoted market prices. Money market investments that have a remaining maturity at the time of purchase of one year or less and non-participating interest earnings and investment contracts are reported at amortized cost.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Cash and Cash Equivalents

The Town pools money from several funds to facilitate disbursement and investment and to maximize investment income. Therefore, all cash and investments are essentially demand deposits and are considered cash and cash equivalents.

Restricted Assets

Customer deposits held by the Town before any services are supplied are restricted to the service for which the deposit was collected. Powell Bill funds are also classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing, or widening of local streets per G.S. 136-41.1 through 136-41.4.

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, 2012.

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:

	General Fund	Water and Sewer Fund
Taxes receivable	\$ 8,645	\$ -
Water and Sewer receivable	-	3,800
Total	<u>\$ 8,645</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 live in excess of two years. Purchased or constructed capital assets are recorded 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.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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. 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(s) 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. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

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 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 net proceeds received, are reported as debt service expenditures.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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'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.

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)].

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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. No committed fund balances exist as of June 30, 2013.

Assigned Fund Balance

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

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 Town of Carthage Cemetery.

Unassigned Fund Balance

Unassigned fund balance represents the portion of fund balance that has not been assigned to another fund or is not 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 order: 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.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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	\$ 1,322,296
Less:	
Stabilization by State statute	<u>119,918</u>
Total available fund balance	<u>\$ 1,202,378</u>

Interfund Transactions

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

Use of Estimates

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

Change in Accounting Principles

The Town implemented Governmental Accounting Standards Board (GASB) Statement 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, and Statement 65, *Items Previously Reported as Assets and Liabilities*, in the fiscal year ending June 30, 2013. In accordance with GASB Statement 63, the Statement of Net Assets has been replaced with the Statement of Net Position. Items on the Statement of Net Position are now classified into Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position. Additionally, GASB Statement 65 requires that deferred costs from the refunding of debt, which were previously deferred and amortized, be presented as deferred outflows of resources. Bond issuance costs, which were previously deferred and amortized, must be included in current expenditures.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

2. Stewardship, Compliance, and Accountability

Excess of Expenditures over Appropriations

For the fiscal year ended June 30, 2013, the expenditures made in the Town's Water and Sewer Fund exceeded the authorized appropriations made by the governing board for Water and Sewer activities by \$84,617. This over-expenditure occurred due to unexpected repairs and maintenance in the current year. Management and the Council will more closely review the budget reports to ensure compliance in the future years.

Direct Spending from Capital Reserve Fund

For the fiscal year ended June 30, 2013, the Town expended funds directly from a capital reserve fund in the amount of \$65,365. This violation occurred due to the Town not adopting a project fund ordinance to appropriately account for the expenditures. Management and the Council will adopt a project fund ordinance in the upcoming year for the project.

3. Detail Notes On All Funds

A. Assets

Deposits

All of the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage are collateralized with securities held by the Town's agent in the Town's name. Under the Pooling Method, 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, and 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.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

At June 30, 2013, the Town's deposits had a carrying amount of \$1,150,189 and a bank balance of \$1,147,074. Of the bank balance, \$836,521 was covered by federal depository insurance and \$310,553 was covered by collateral held under the Pooling Method.

Investments

At June 30, 2013, the Town of Carthage had \$615,206 invested with the North Carolina Capital Management Trust's Capital Portfolio which carried a credit rating of AAAm by Standard and Poor's. The Town has no policy regarding credit risk.

Accounts Receivables

The intergovernmental receivables presented in the Combined Balance Sheet and Statement of Net Position consisted of the following:

	<u>June 30, 2013</u>
Garbage fee	\$ 22,159
Sales tax	82,945
Sales tax refund	<u>14,816</u>
Total	<u>\$ 119,920</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Capital Assets

Primary Government

Capital asset activity for governmental activities for the year ended June 30, 2013 was as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>
Governmental Activities:				
Non-Depreciable Capital Assets:				
Land	\$ 304,650	\$ -	\$ -	\$ 304,650
Total non-depreciable capital assets	<u>304,650</u>	<u>-</u>	<u>-</u>	<u>304,650</u>
Depreciable Capital Assets:				
Buildings and improvements	1,387,476	-	-	1,387,476
Furniture and equipment	<u>2,424,670</u>	<u>269,473</u>	<u>188,118</u>	<u>2,506,025</u>
Total depreciable capital assets	<u>3,812,146</u>	<u>269,473</u>	<u>188,118</u>	<u>3,893,501</u>
Less Accumulated Depreciation:				
Buildings and improvements	377,532	35,003	-	412,535
Furniture and equipment	<u>1,492,737</u>	<u>170,709</u>	<u>172,280</u>	<u>1,491,166</u>
Total accumulated depreciation	<u>1,870,269</u>	<u>\$ 205,712</u>	<u>\$ 172,280</u>	<u>1,903,701</u>
Total depreciable capital assets, net	<u>1,941,877</u>			<u>1,989,800</u>
Governmental activity capital assets, net	<u>\$ 2,246,527</u>			<u>\$ 2,294,450</u>

Depreciation was charged to governmental functions as follows:

General government	\$ 39,569
Public safety	<u>166,143</u>
Total depreciation expense	<u>\$ 205,712</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Proprietary Capital Assets

The capital asset activity of the Proprietary Fund for the year ended June 30, 2013 was as follows:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>
Business-Type Activities:				
Water and Sewer Fund:				
Non-Depreciable Capital Assets:				
Land	\$ 124,787	\$ -	\$ -	\$ 124,787
Total non-depreciable capital assets	<u>124,787</u>	<u>-</u>	<u>-</u>	<u>124,787</u>
Depreciable Capital Assets:				
Buildings	2,095,691	-	-	2,095,691
Machinery and equipment	2,284,399	65,108	-	2,349,507
Water and Sewer improvements	<u>5,565,311</u>	<u>-</u>	<u>-</u>	<u>5,565,311</u>
Total depreciable capital assets	<u>9,945,401</u>	<u>65,108</u>	<u>-</u>	<u>10,010,509</u>
Less Accumulated Depreciation:				
Buildings	615,446	50,944	-	666,390
Machinery and equipment	920,046	109,633	-	1,029,679
Water and sewer improvements	<u>2,208,899</u>	<u>129,587</u>	<u>-</u>	<u>2,338,486</u>
Total accumulated depreciation	<u>3,744,391</u>	<u>\$ 290,164</u>	<u>\$ -</u>	<u>4,034,555</u>
Total depreciable capital assets, net	<u>6,201,010</u>			<u>5,975,954</u>
Business-type activities capital assets, net	<u>\$ 6,325,797</u>			<u>\$ 6,100,741</u>

Net Investment In Capital Assets

The total net investment in capital assets, at June 30, 2013 is composed of the following elements:

	<u>Governmental</u> <u>Activities</u>	<u>Business-Type</u> <u>Activities</u>
Capital assets	\$ 2,294,450	\$ 6,100,741
Long-term debt related to capital assets	<u>(1,027,870)</u>	<u>(110,741)</u>
Net investment in capital assets	<u>\$ 1,266,580</u>	<u>\$ 5,990,000</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Accounts Payable and Accrued Liabilities

Payables at June 30, 2013 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
Governmental Activities:			
General	<u>\$ 85,060</u>	<u>\$ 18,625</u>	<u>\$ 103,685</u>
Business-Type Activities:			
Water and Sewer	<u>\$ 45,492</u>	<u>\$ 4,833</u>	<u>\$ 50,325</u>

Pension Plan Obligations

Local Governmental Employees' Retirement System

Plan Description. The Town 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.

Funding Policy. Plan members are required to contribute 6.0% percent 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 6.74% and 6.81%, respectively, of annual covered payroll. The contribution requirements of members and of the Town are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$142,458, \$138,847, and \$134,399, respectively. The contributions made by the Town equaled the required contributions for each year.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Law Enforcement Officers' Special Separation Allowance

Plan Description. The Town administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85% 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. Plan benefits are funded on a pay-as-you-go basis. There was no actuarial study of the plan liabilities and that liability is considered immaterial.

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.

Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the Plan. Contributions for the year ended June 30, 2013 were \$21,615, which consisted of \$18,252 from the Town and \$3,363 from the law enforcement officers.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Firemen's and Recue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Carthage, to the Firemen'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 Firemen'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 Firemen'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.

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. All death benefit payments are made from the Death Benefit Plan.

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. The Town considers these contributions to be immaterial.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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.

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%. 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 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 asset 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>(112,386)</u>	<u>(4,243)</u>
Net book value	<u>\$ 252,983</u>	<u>\$ 24,472</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. The Town also entered into an installment purchase contract to finance a crash truck.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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	\$ 552,287
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	272,802
Installment purchase originally issued on November 18, 2011 for \$42,236, due in annual payments of \$8,966, including interest at 2.13%, payable at BB&T	<u>34,077</u>
Total installment purchases	<u>\$ 859,166</u>

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 April 18, 1995 for \$972,480, due in annual payments of \$48,624, plus interest at 3.385%, payable to the NC Water Pollution Control Revolving Fund	\$ 48,624
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	<u>41,283</u>
Total notes payable	<u>\$ 89,907</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Long Term Obligation Activity

The following is a summary of changes in the Town's long-term obligations as of June 30, 2013:

	<u>Balance</u> <u>July 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>June 30, 2013</u>	<u>Current</u> <u>Portion</u>
Governmental Activities:					
Capital lease obligations	\$ 37,516	\$ 205,369	\$ 74,181	\$ 168,704	\$ 66,185
Installment purchases	888,284	-	29,118	859,166	32,271
Compensated absences	52,461	23,279	13,155	62,585	13,000
Total governmental activities	<u>\$ 978,261</u>	<u>\$ 228,648</u>	<u>\$ 116,454</u>	<u>\$ 1,090,455</u>	<u>\$ 111,456</u>
Business-Type Activities:					
Capital lease obligations	\$ -	\$ 28,715	\$ 7,881	\$ 20,834	\$ 6,506
Notes payable	158,198	-	68,291	89,907	68,930
Compensated absences	8,788	4,752	146	13,394	3,349
Total business-type activities	<u>\$ 166,986</u>	<u>\$ 33,467</u>	<u>\$ 76,318</u>	<u>\$ 124,135</u>	<u>\$ 78,785</u>

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, 2013 amounts to approximately \$44,200,000.

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

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		Total Debt Due	
	Principal	Interest	Principal	Interest	Principal	Interest
2014	\$ 66,185	\$ 9,563	\$ 32,271	\$ 38,218	\$ 98,456	\$ 47,781
2015	49,802	9,992	33,483	36,988	83,285	46,980
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
2019-2023	-	-	162,295	145,237	162,295	145,237
2024-2028	-	-	174,987	106,506	174,987	106,506
2029-2033	-	-	356,766	139,783	356,766	139,783
Total	<u>\$ 168,704</u>	<u>\$ 30,005</u>	<u>\$ 859,166</u>	<u>\$ 569,843</u>	<u>\$ 1,027,870</u>	<u>\$ 599,848</u>

Business-Type Activities:						
2014	\$ 6,506	\$ 1,375	\$ 68,930	\$ 2,986	\$ 75,436	\$ 4,361
2015	6,935	946	20,977	1,512	27,912	2,458
2016	7,393	488	-	-	-	-
Total	<u>\$ 20,834</u>	<u>\$ 2,809</u>	<u>\$ 89,907</u>	<u>\$ 4,498</u>	<u>\$ 103,348</u>	<u>\$ 6,819</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	Unearned Revenues
Taxes receivable (General Fund)	<u>\$ 26,397</u>	<u>\$ -</u>

TOWN OF CARTHAGE, NORTH CAROLINA

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2013

Interfund Balances and Activity

Transfers to/from Other Funds

Transfers to/from other funds during the fiscal year ended June 30, 2013 consist of the following:

From the General Fund to the Water and Sewer Fund	\$ <u>80,000</u>
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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, and 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, 2012 - July 1, 2013 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.

The Town has purchased commercial flood insurance for \$2,500,000 of coverage.

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, 2013, the Town was a defendant to various lawsuits. In the opinion of the Town's management, the ultimate effect to these legal matters will not 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, 2013

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.

MAJOR GOVERNMENTAL FUND

GENERAL FUND

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

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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, 2013**

	2013		
	Budget	Actual	Variance Over/Under
Revenues:			
Ad Valorem Taxes:			
Taxes		\$ 1,100,144	
Penalties		9,228	
Total	\$ 1,079,276	1,109,372	\$ 30,096
Other Taxes and Licenses:			
Local option sales taxes		463,804	
Privilege licenses		5,355	
Motor vehicle license		9,002	
Rental tax revenue		624	
Total	480,680	478,785	(1,895)
Unrestricted Intergovernmental Revenues:			
Beer and wine tax		8,979	
Utility franchise tax		128,800	
Other		3,222	
Total	165,420	141,001	(24,419)
Restricted Intergovernmental Revenues:			
Powell Bill		72,461	
Fire/safety - Carthage Rescue Squad		39,500	
Other		13,420	
Total	112,150	125,381	13,231
Sales and Services:			
Sanitary landfill participation fees	140,000	141,983	1,983
Investment Earnings	2,300	2,309	9

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, 2013**

	2013		
	Budget	Actual	Variance Over/Under
Miscellaneous:			
Court costs and fees		2,969	
Cable vision fees		2,950	
Utility leases		51,263	
Miscellaneous		17,935	
Moore County ABC revenue		561	
Police Forfeitures		1,142	
Administrative charge - Fire District		12,000	
Donations		42,123	
Insurance proceeds			
Historical proceeds		1,112	
Cemeteries		5,250	
Rent		5,850	
Total	110,502	143,155	32,653
Total revenues	2,090,328	2,141,986	51,658
Expenditures:			
General Government:			
Governing Body:			
Salaries and employee benefits		9,473	
Operating expenditures		2,786	
Total	16,150	12,259	3,891
Administration:			
Salaries and employee benefits		180,459	
Operating expenditures		148,192	
Total	339,618	328,651	10,967
Finance:			
Salaries and employee benefits		84,817	
Operating expenditures		649	
Total	91,140	85,466	5,674

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, 2013**

	2013		
	Budget	Actual	Variance Over/Under
Legal:			
Contracted services	4,000	3,650	350
Planning and zoning:			
Operating expenditures	6,250	4,647	1,603
Public Buildings:			
Operating expenditures		61,958	
Total	71,461	61,958	9,503
Total general government	528,619	496,631	31,988
Public Safety:			
Police:			
Salaries and employee benefits		484,066	
Vehicle Maintenance		8,809	
Operating expenditures		67,936	
Capital outlay		254,547	
Total	939,098	815,358	123,740
Fire:			
Salaries and employee benefits		137,006	
Vehicle Maintenance		32,188	
Operating expenditures		122,363	
Capital outlay		39,820	
Total	334,174	331,377	2,797
Total public safety	1,273,272	1,146,735	126,537
Street and Sanitation:			
Street and Highways:			
Salaries and employee benefits		120,372	
Vehicle Maintenance		11,697	
Street lights		66,518	
Contracted services		27,426	
Operating expenditures		27,246	
Total	262,919	253,259	9,660

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, 2013

	2013		
	Budget	Actual	Variance Over/Under
Powell Bill:			
Salaries and employee benefits		21,586	
Operating expenditures		42,257	
Total	71,300	63,843	7,457
Sanitation:			
Salaries and employee benefits		24,069	
Contracted services		149,155	
Operating expenditures		2,283	
Total	195,235	175,507	19,728
Total street and sanitation	529,454	492,609	36,845
Cultural:			
Parks and recreation:			
Operating expenditures		8,717	
Capital outlay		1,534	
Total	13,640	10,251	3,389
Cemeteries:			
Operating expenditures		2,710	
Total	5,500	2,710	2,790
Total cultural	19,140	12,961	6,179
Debt Service:			
Principal retirement		103,299	
Interest and fees		42,951	
Total debt service	148,057	146,250	1,807
Total expenditures	2,498,542	2,295,186	203,356
Revenues over (under) expenditures	(408,214)	(153,200)	255,014

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, 2013**

	2013		
	Budget	Actual	Variance Over/Under
Other Financing Sources (Uses):			
Capital lease obligations issued	205,369	205,369	-
Transfer (out)	(80,000)	(80,000)	-
Appropriated fund balance	282,845	-	(282,845)
Total other financing sources (uses)	408,214	125,369	(282,845)
Net change in fund balance	\$ -	(27,831)	\$ (27,831)
Fund Balance:			
Beginning of year - July 1		1,350,127	
End of year - June 30		\$ 1,322,296	

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NONMAJOR GOVERNMENTAL FUND

PERMANENT FUND

Expendable trust funds are used to account for assets a government holds in a trustee capacity for others when both the principal and the income earned by the principal may be used for the purpose specified in the trust agreement. A common example is a trust fund that accepts donations for use as specified by the donor.

Perpetual Care Fund - This fund accounts for assets held by the Town for the cemetery.

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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, 2013

	2013		
	Budget	Actual	Variance Over/Under
Revenues:			
Investment earnings	\$ 200	\$ 285	\$ 85
Total revenues	<u>200</u>	<u>285</u>	<u>85</u>
Expenditures:			
Operating expenses	<u>200</u>	<u>24</u>	<u>176</u>
Total expenditures	<u>200</u>	<u>24</u>	<u>176</u>
Net change in fund balance	<u>\$ -</u>	261	<u>\$ 261</u>
Fund Balance:			
Beginning of year - July 1		<u>75,264</u>	
End of year - June 30		<u>\$ 75,525</u>	

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PROPRIETARY FUND

ENTERPRISE FUNDS

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

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

Capital Reserve Fund - This fund is used to account for resources restricted to use for the acquisition or construction of capital assets for the Town's water and sewer operations.

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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, 2013**

	2013		
	Budget	Actual	Variance Over/Under
Revenues:			
Operating revenues:			
Charges for services		\$ 967,314	
Tap fees		75,354	
Total operating revenues	\$ 1,074,100	1,042,668	\$ (31,432)
Non-operating revenues:			
Interest earnings		435	
Total non-operating revenues	800	435	(365)
Total revenues	1,074,900	1,043,103	(31,797)
Expenditures:			
Operating expenditures:			
Water and sewer administration		113,966	
Water operations		399,233	
Water maintenance		24,357	
Sewer operations		351,343	
Sewer maintenance		117,626	
Total water and sewer operations	924,488	1,006,525	(82,037)
Debt principal payment		76,172	
Debt interest payment		5,297	
Total debt services	110,382	81,469	28,913
Capital Outlay:			
Sewer		66,238	
Total capital outlay	34,745	66,238	(31,493)
Total expenditures	1,069,615	1,154,232	(84,617)
Revenues over (under) expenditures	5,285	(111,129)	(116,414)
Other Financing Sources (Uses):			
Transfer from other funds	80,000	80,000	-
Transfer to other funds (intrafund)	(114,000)	(114,000)	-
Capital lease obligation issued	28,715	28,715	-
Total other financing sources (uses)	(5,285)	(5,285)	-
Revenues and other financing sources over (under) expenditures and other financing uses	\$ -	\$ (116,414)	\$ (116,414)

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, 2013**

	2013	
	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		\$ (116,414)
Reconciling items:		
Capital assets purchased		65,108
Depreciation		(290,164)
Principal retirement		76,172
Increase in accrued compensated absences		(4,606)
Non-capitalized capital project expense		(65,365)
Loan proceeds		(28,715)
Intrafund transfers		<u>114,000</u>
Change in net position		<u>\$ (249,984)</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, 2013

	2013		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/Under</u>
Expenditures:			
Engineering	\$ 114,000	\$ 65,365	\$ (48,635)
Total expenditures	<u>114,000</u>	<u>65,365</u>	<u>(48,635)</u>
Revenues over (under) expenditures	<u>(114,000)</u>	<u>(65,365)</u>	<u>48,635</u>
Other Financing Sources (Uses):			
Transfer from Water and Sewer Fund	<u>114,000</u>	<u>114,000</u>	<u>-</u>
Total other financing sources (uses)	<u>114,000</u>	<u>114,000</u>	<u>-</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ 48,635</u>	<u>\$ 48,635</u>

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OTHER SUPPLEMENTAL FINANCIAL DATA

This section contains additional information required on property taxes and transfers.

- Schedule of Ad Valorem Taxes Receivable
- Schedule of Current Tax Levy - Town-Wide Levy

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TOWN OF CARTHAGE, NORTH CAROLINA**SCHEDULE OF AD VALOREM TAXES RECEIVABLE
JUNE 30, 2013**

Fiscal Year	Balance July 1, 2012	Additions	Collections and Credits	Balance June 30, 2013
2012-2013	\$ -	\$ 1,098,506	\$ 1,083,942	\$ 14,564
2011-2012	21,909	-	16,681	5,228
2010-2011	7,036	-	2,589	4,447
2009-2010	1,741	-	(360)	2,101
2008-2009	1,633	-	-	1,633
2007-2006	2,145	-	-	2,145
2006-2007	1,448	-	-	1,448
2006-2006	1,226	-	-	1,226
2004-2005	1,206	-	-	1,206
2003-2004	1,257	-	213	1,044
2002-2003	137	-	137	-
Total	\$ 39,738	\$ 1,098,506	\$ 1,103,202	35,042
Less: Allowance for uncollectible accounts				
General Fund				<u>(8,645)</u>
Ad valorem taxes receivable, net				
General Fund				<u>\$ 26,397</u>
Reconcilement with Revenues:				
Ad valorem taxes - General Fund				\$ 1,109,372
Reconciling Items:				
Amount written off per statute				137
Interest and lien advertising collected				(9,228)
Miscellaneous				<u>2,921</u>
Total collections and credits				<u>\$ 1,103,202</u>

TOWN OF CARTHAGE, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY - TOWN WIDE LEVY
FOR THE YEAR ENDED JUNE 30, 2013

	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	\$ 217,731,500	\$ 0.400	\$ 870,926	\$ 818,518	\$ 52,408
Fire tax	367,207,813	0.064	235,013	212,987	22,026
Total	584,939,313		1,105,939	1,031,505	74,434
Abatements	(18,582,500)	0.040	(7,433)	(2,737)	(4,696)
Total property valuation	<u>\$ 566,356,813</u>				
Net Levy			1,098,506	1,028,768	69,738
Uncollected taxes, June 30, 2013			14,564	6,535	8,029
Current Year's Taxes Collected			<u>\$ 1,083,942</u>	<u>\$ 1,022,233</u>	<u>\$ 61,709</u>
Current Levy Collection Percentage			<u>98.67%</u>	<u>99.36%</u>	<u>88.49%</u>

COMPLIANCE SECTION

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

"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, 2013, and the related notes to the financial statements, which collectively comprise the Town of Carthage's basic financial statements, and have issued our report thereon dated October 8, 2013.

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, Responses 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, 2013-001, 2013-002, 2013-003 and 2013-004, described in the accompanying Schedule of Findings, Responses and Questioned Costs, to be material weaknesses.

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 instances of non-compliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings, Responses, and Questioned Costs as items 2013-003 and 2013-004.

Town of Carthage's Responses to Findings

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

Purpose of this Report

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

Martin Starnes & Associates, CPAs, P.A.

Martin Starnes & Associates, CPAs, P.A.
Hickory, NC
October 8, 2013

TOWN OF CARTHAGE, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

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 No

Non-compliance material to financial
statements noted?

 X Yes No

TOWN OF CARTHAGE, NORTH CAROLINA

SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

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

Finding 2013-001:

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, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Finding 2013-002:

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, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Finding 2013-003:

Criteria: General Statutes require that all monies received and expended by a local government should be included in the budget ordinance. The Statutes require that funds be appropriated before incurring the obligation for funds. These requirements imply the Town has a responsibility to design a system to monitor its compliance with the budget ordinance and the General Statutes pertaining to local government finance.

Condition: There are excessive over-expended items in the Enterprise Fund of the Town.

Context: Lack of budgetary control.

Effect: Expenditures exceed budget.

Cause: Budget was not properly monitored

Recommendation: Management and the Board should review the budget reports to ensure compliance in future years.

Name of Contact Person: Kesha Matthews, Finance Officer

Responsible Official's Response: Management concurs. Management and the Board will more closely review the budget reports to ensure compliance in future years.

TOWN OF CARTHAGE, NORTH CAROLINA
SCHEDULE OF FINDINGS, RESPONSES, AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013

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

Finding 2013-004:

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

Condition: There was direct spending out of the Capital Reserve Fund.

Effect: The Town was in violation of the North Carolina General Statutes.

Cause: Management is not ensuring compliance with the General Statutes.

Recommendation: Management and the Board should only transfer in and out of the Capital Reserve Fund and adopt a project fund for the upcoming project.

Name of Contact Person: Kesha Matthews, Finance Officer

Responsible Official's Response: Management concurs and will adopt a project fund for the upcoming project.

TOWN OF CARTHAGE, NORTH CAROLINA
SUMMARY SCHEDULE OF PRIOR YEAR'S AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013

Finding 2012-1

Status: Repeated as Finding 2013-001.

Finding 2012-2

Status: Repeated as Finding 2013-002.