

**TOWN OF RUTHERFORDTON  
NORTH CAROLINA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2017**



# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

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

## INDEPENDENT AUDITOR'S REPORT

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

### Report On the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the Town of Rutherfordton, North Carolina as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town of Rutherfordton'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 did not audit the financial statements of the Town of Rutherfordton ABC Board, Rutherfordton Town Revitalization, Inc., and Norris Library Foundation, Inc., which represent 100% of the assets, net position, and revenues of the discretely presented component units. Those financial statements were audited by other auditors whose reports have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Town of Rutherfordton ABC Board, Rutherfordton Town Revitalization, Inc., and Norris Library Foundation, Inc., are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The financial statements of the Town of Rutherfordton ABC Board, Rutherfordton Town Revitalization, Inc., and Norris Library Foundation, Inc., were not audited in accordance with *Government Auditing Standards*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error.

In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation of the financial statements.

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

## **Opinions**

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each major fund of the Town of Rutherfordton, North Carolina, as of June 30, 2017, 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 Management's Discussion and Analysis, the Local Government Employees' Retirement System's Schedules of the Proportionate Share of the Net Pension Liability (Asset) and Contributions, and the Law Enforcement Officers' Special Separation Allowance Schedules of the Changes in Total Pension Liability and Total Pension Liability as a Percentage of Covered Payroll be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consist of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary and Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Rutherfordton's basic financial statements. The budgetary schedules and other schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The budgetary schedules and other schedules are the responsibility of management and were derived from, and relate directly to, the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures; including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and other auditors. In our opinion, based on our audit, the procedures as described above, and the reports of the other auditors, the budgetary schedules and other 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 30, 2017 on our consideration of the Town of Rutherfordton's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town of Rutherfordton's 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 Rutherfordton's internal control over financial reporting and compliance.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
Hickory, NC  
October 30, 2017

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## Management's Discussion and Analysis

As management of the Town of Rutherfordton, we offer readers of the Town of Rutherfordton's financial statements this narrative overview and analysis of the financial activities of the Town of Rutherfordton for the fiscal year ended June 30, 2017. We encourage readers to read the information presented here, in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

### Financial Highlights

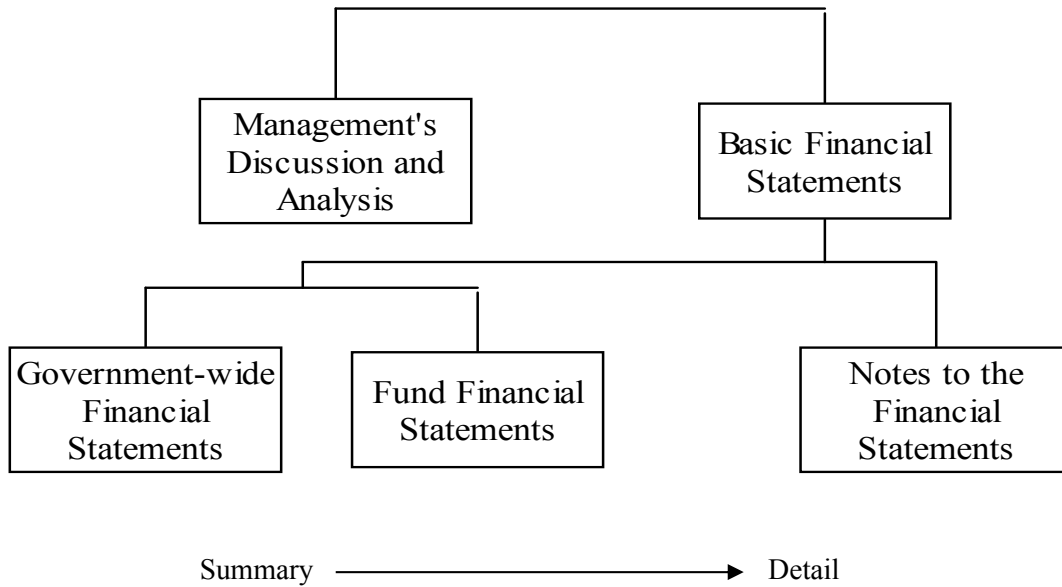
- The assets and deferred outflows of resources of the Town of Rutherfordton exceeded its liabilities and deferred inflows of resources at the close of the fiscal year by \$13,842,905 (*net position*).
- The Town's total net position decreased by \$192,735 primarily due to change in the County's tax office where in the prior year the Town received ad valorem taxes for motor vehicles and this was corrected in the current year decreasing revenues. Another stimulant to the decrease of net position in the current year was the decrease of State grants received in the current year.
- As of the close of the current fiscal year, the Town of Rutherfordton's governmental funds reported combined ending fund balances of \$3,224,734. That amount is a decrease of \$269,367, in comparison with the prior year. Approximately 44.3 percent of this total amount, or \$1,428,609, is non-spendable or restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$1,796,125, or 41.8 percent, of total General Fund expenditures.
- The outstanding debt for the Town is \$860,108 at June 30, 2017. The Town paid debt service in the amount of \$161,695.

### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Town of Rutherfordton's basic financial statements. The Town's basic financial statements consist of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). The basic financial statements present two different views of the Town through the use of government-wide statements and fund financial statements. In addition to the basic financial statements, this report contains other supplemental information that will enhance the reader's understanding of the financial condition of the Town of Rutherfordton.

## 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**. They provide both short and long-term information about the Town's financial status.

The next statements (Exhibits C through 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; and 3) the proprietary fund statements.

The final 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. Following the notes is the **required supplemental information**. This section contains funding information about the Town's pension plans. After the required supplemental information, **supplemental schedules** are provided to show details about budgetary information required by the General Statutes.

## Government-Wide Financial Statements

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

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

The government-wide financial statements are divided into the following three types of activities:

**Governmental Activities.** These activities of the Town include general government, public safety, transportation and environmental protection and cultural recreation. Property taxes along with State and federal grants finance most of these activities.

**Business-Type Activities.** The Town charges fees to recover the costs associated with providing certain services. The activities include solid waste and sewage disposal.

**Component Units.** There are three component units of the Town of Rutherfordton: The Town of Rutherfordton ABC Board, the Rutherfordton Town Revitalization, Inc. (RTR), and Norris Public Library. Although legally separate from the Town, the Town of Rutherfordton ABC Board, the Rutherfordton Town Revitalization, Inc. (RTR), and Norris Public Library are important to the Town. The Town exercises control over the ABC Board by appointing its members and the Board is required to distribute its profits to the Town. Rutherfordton Town Revitalization, Inc. (RTR), and Norris Public Library are both fiscally dependent on the Town.

The government-wide financial statements directly follow the Management's Discussion and Analysis of this report on Exhibits A and B.

## Fund Financial Statements

The fund financial statements (See Figure 1) provide a more detailed look at the Town's most significant activities. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Town of Rutherfordton, like all other governmental entities in North Carolina, uses fund accounting to ensure and reflect compliance (or non-compliance) with finance-related legal requirements, such as the General Statutes or the Town's budget ordinance. All of the funds of the Town of Rutherfordton can be divided into two categories: governmental funds and proprietary funds.

*Governmental Funds.* Governmental funds are used to account for those functions reported as governmental activities in the government-wide financial statements. Most of the Town's basic services are accounted for in governmental funds. These funds focus on how assets can readily be converted into cash flow in-and-out, and what monies are left at year-end that will be available for spending in the next year. Governmental funds are reported using an accounting method called *modified accrual accounting*, which provides a short-term spending focus. As a result, the governmental fund financial statements give the reader a detailed short-term view that helps him or her determine if there are more or less financial resources available to finance the Town's programs. The relationship between government activities (reported in the Statement of Net Position and the Statement of Activities) and governmental funds is described in a reconciliation that is a part of the fund financial statements.

The Town adopts an annual budget for its General Fund, as required by the General Statutes. The budget is a legally adopted document that incorporates input from the citizens of the Town, the management of the Town, and the decisions of the Board about which services to provide and how to pay for them. It also authorizes the Town to obtain funds from identified sources to finance these current period activities. The budgetary statement provided for the General Fund demonstrates how well the Town complied with the budget ordinance and whether or not the Town succeeded in providing the services as planned when the budget was adopted. The budgetary comparison statement uses the budgetary basis of accounting and is presented using the same format, language, and classifications as the legal budget document. The statement shows four columns: 1) the original budget as adopted by the Board; 2) the final budget as amended by the Board; 3) the actual resources, charges to appropriations, and ending balances in the General Fund; and 4) the difference or variance between the final budget and the actual resources and charges. To account for the difference between the budgetary basis of accounting and the modified accrual basis, a reconciliation showing the differences in the reported activities, is shown at the end of the budgetary statement.

*Proprietary Funds.* The Enterprise Fund is the only proprietary-type fund that the Town utilizes. *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 solid waste disposal and user disposal fees. These funds are the same as those shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

*Notes to the Financial Statements.* The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements directly follow the basic financial statements of this report.

*Other Information.* In addition to the basic financial statements and accompanying notes, this report includes certain required supplementary information concerning Town of Rutherfordton's progress in funding its obligation to provide pension benefits to its law enforcement officers. Required supplementary information can be found directly following the notes 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.

## Government-Wide Financial Analysis

**Town of Rutherfordton's Net Position**  
**Figure 2**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
<b>Assets:</b>						
Current and other assets	\$ 3,185,117	\$ 3,391,972	\$ 804,688	\$ 863,085	\$ 3,989,805	\$ 4,255,057
Restricted assets	306,367	612,615	-	-	306,367	612,615
Capital assets	4,394,931	4,311,990	6,784,344	6,791,181	11,179,275	11,103,171
Total assets	<u>7,886,415</u>	<u>8,316,577</u>	<u>7,589,032</u>	<u>7,654,266</u>	<u>15,475,447</u>	<u>15,970,843</u>
<b>Deferred Outflows of Resources</b>	<u>527,001</u>	<u>114,784</u>	<u>10,878</u>	<u>2,585</u>	<u>537,879</u>	<u>117,369</u>
<b>Liabilities:</b>						
Current liabilities	313,518	536,034	67,080	52,823	380,598	588,857
Long-term liabilities	1,463,201	1,088,714	263,299	284,026	1,726,500	1,372,740
Total liabilities	<u>1,776,719</u>	<u>1,624,748</u>	<u>330,379</u>	<u>336,849</u>	<u>2,107,098</u>	<u>1,961,597</u>
<b>Deferred Inflows of Resources</b>	<u>61,988</u>	<u>93,554</u>	<u>1,335</u>	<u>2,100</u>	<u>63,323</u>	<u>95,654</u>
<b>Net Position:</b>						
Net investment in capital assets	3,820,265	3,601,741	6,503,946	6,479,627	10,324,211	10,081,368
Restricted	1,401,181	1,379,369	-	-	1,401,181	1,379,369
Unrestricted	1,353,263	1,731,949	764,250	838,275	2,117,513	2,570,224
Total net position	<u>\$ 6,574,709</u>	<u>\$ 6,713,059</u>	<u>\$ 7,268,196</u>	<u>\$ 7,317,902</u>	<u>\$ 13,842,905</u>	<u>\$ 14,030,961</u>

As noted earlier, net position may serve, over time, as one useful indicator of a government's financial condition. The assets and deferred outflows of resources of the Town of Rutherfordton exceeded its liabilities and deferred inflows of resources by \$13,842,905 as of June 30, 2017. The Town's net position decreased by \$192,735 for the fiscal year ended June 30, 2017. Net position of the Town are reported in three categories: net investment in capital assets of \$10,324,211; restricted net position of \$1,401,181; and unrestricted net position of \$2,117,513.

The net investment in capital assets category is defined as the Town's investment in Town-owned capital assets (e.g. land, buildings, automotive equipment, and office and other equipment), less any related debt still outstanding that was issued to acquire those assets. 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 outstanding related debt, the resources needed to repay that debt must be provided by other resources since the capital assets cannot be used to liquidate these liabilities.

Restricted net position consists of restrictions for Stabilization by State statute, public safety protection costs, debt service, Streets - Powell Bill, and other cultural and recreation – recreation endowment and perpetual maintenance.

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

- A strong property tax collection rate of 97.69 percent
- Other budgetary control efforts
- Received roughly \$225,000 less in state grants than the prior year

**Town of Rutherfordton's Changes in Net Position**  
**Figure 3**

	Governmental Activities		Business-Type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 124,925	\$ 340,008	\$ 905,158	\$ 936,416	\$ 1,030,083	\$ 1,276,424
Operating grants and contributions	279,192	482,178	-	-	279,192	482,178
Capital grants and contributions	-	-	83,032	100,000	83,032	100,000
General revenues:						
Property taxes	1,895,588	1,938,273	-	-	1,895,588	1,938,273
Other taxes	1,613,985	1,235,557	-	-	1,613,985	1,235,557
Other	83,105	153,647	1,607	10,707	84,712	164,354
Total revenues	3,996,795	4,149,663	989,797	1,047,123	4,986,592	5,196,786
<b>Expenses:</b>						
General government	900,017	793,459	-	-	900,017	793,459
Public safety	1,841,908	1,704,399	-	-	1,841,908	1,704,399
Transportation and environmental protection	924,032	981,751	-	-	924,032	981,751
Cultural and recreational	457,699	380,091	-	-	457,699	380,091
Interest on long-term debt	16,168	10,789	-	-	16,168	10,789
Sewer	-	-	1,039,503	844,118	1,039,503	844,118
Total expenses	4,139,824	3,870,489	1,039,503	844,118	5,179,327	4,714,607
Change in net position	(143,029)	279,174	(49,706)	203,005	(192,735)	482,179
<b>Net Position:</b>						
Beginning of year - July 1, previously reported	6,713,059	6,433,885	7,317,902	7,114,897	14,030,961	13,548,782
Restatement	4,679	-	-	-	4,679	-
Beginning of year, restated	6,717,738	6,433,885	7,317,902	7,114,897	14,035,640	13,548,782
End of year - June 30	\$ 6,574,709	\$ 6,713,059	\$ 7,268,196	\$ 7,317,902	\$13,842,905	\$14,030,961

**Governmental Activities.** Governmental activities decreased the Town's net position by \$143,029. Key elements of this increase are as follows:

- Decrease in ad valorem taxes in comparison to the prior year
- Completion and capitalization of large capital projects
- Receiving less State grants in comparison to the prior year

**Business-Type Activities.** Business-type activities decreased the Town's net position by \$49,706. Key elements of this increase are as follows:

- Placing in service water and sewer fund assets
- Grant expenditures increased in relation to the prior year grant projects were completed

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

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

The General Fund is the chief operating fund of the Town of Rutherfordton. At the end of the current fiscal year, available fund balance of the General Fund was \$2,115,365 while total fund balance was \$2,604,912. As a measure of the General Fund's liquidity, it may be useful to compare available fund balance to total fund expenditures. Available fund balance represents 49.2 percent of total General Fund expenditures, while total fund balance represents 60.5 percent of that same amount.

At June 30, 2017, the governmental funds of the Town reported a combined fund balance of \$3,224,734, a \$269,367 decrease from last year. The decrease was due to change in the County's tax office where in the prior year the Town received ad valorem taxes for motor vehicles and this was corrected in the current year decreasing revenues. Another stimulant to the decrease of net position in the current year was the decrease of State grants received in the current year as well as the purchase of capital assets in FY 2017.

**General Fund Budgetary Highlights.** The Town's financial position decreased during FY 2017 due to receipt of less State grants in comparison to the prior year. Town departments' diligence in monitoring their operational budgets resulted in total expenditures being under budget at fiscal year-end. On the revenue side, the largest negative budget variances were in the restricted intergovernmental revenues, miscellaneous earnings, and ad valorem property tax categories.

The Town revised the budget for various reasons during the fiscal year. 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.

Total amendments to the General Fund increased revenues by \$772,546, or 21 percent, and expenditures by \$1,205,826, or 30.9 percent, of the original budget.

**Proprietary Funds.** The Town’s proprietary funds provide the same type of information found in the government-wide statements, but in more detail. Total net position for the proprietary fund at the end of the fiscal year amounted to \$7,268,196. During the fiscal year 2017, proprietary fund net position decreased \$49,706. This is due to increase of grant expenditures in the current year as grant projects were started and completed in the current fiscal year. Depreciation expense increased in the current year as assets were placed in service in the current year of roughly \$310,000 that are being depreciated and were not in service in the prior year.

**Capital Asset and Debt Administration**

**Capital Assets.** The Town’s investment in capital assets for its governmental and business-type activities as of June 30, 2017 totals \$11,179,275 (net of accumulated depreciation). These assets include land, buildings, equipment, pump stations and sewer collection systems, wastewater treatment plant, and streets.

**Town of Rutherfordton’s Capital Assets  
(Net of Depreciation)**

**Figure 4**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Land	\$ 292,254	\$ 249,274	\$ 18,750	\$ 18,750	\$ 311,004	\$ 268,024
Buildings and improvements	6,668,631	6,499,879	-	-	6,668,631	6,499,879
Equipment	4,183,672	4,041,396	493,396	358,532	4,677,068	4,399,928
Pump stations and sewer collection systems	-	-	5,465,898	5,291,801	5,465,898	5,291,801
Wastewater treatment plant	-	-	5,092,691	5,092,691	5,092,691	5,092,691
Streets	-	-	6,460	6,460	6,460	6,460
Accumulated depreciation	<u>(6,749,626)</u>	<u>(6,478,559)</u>	<u>(4,292,851)</u>	<u>(3,977,053)</u>	<u>(11,042,477)</u>	<u>(10,455,612)</u>
Total	<u>\$ 4,394,931</u>	<u>\$ 4,311,990</u>	<u>\$ 6,784,344</u>	<u>\$ 6,791,181</u>	<u>\$11,179,275</u>	<u>\$11,103,171</u>

Additional information on the Town’s capital assets can be found in Note 3, capital assets section of the notes to the basic financial statements.

**Long-Term Debt.** As of June 30, 2017, the Town of Rutherfordton had total installment debt outstanding of \$860,108. A summary of long-term debt is shown in Figure 5.

**Town of Rutherfordton’s Outstanding Debt & Long Term Liabilities**

**Figure 5**

	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Notes payable	\$ 280,920	\$ 326,988	\$ 280,398	\$ 311,554	\$ 561,318	\$ 638,542
Capital lease	298,790	383,261	-	-	298,790	383,261
Total	<u>\$ 579,710</u>	<u>\$ 710,249</u>	<u>\$ 280,398</u>	<u>\$ 311,554</u>	<u>\$ 860,108</u>	<u>\$ 1,021,803</u>



The State of North Carolina limits the amount of general obligation debt that a unit of government can issue to eight percent of the total assessed value of taxable property located within that government's boundaries. The legal debt margin for the Town of Rutherfordton is \$26,006,999.

Additional information regarding the Town of Rutherfordton's long-term debt can be found in Note 3, Long-Term Debt section of the notes to the basic financial statements.

### **Budget Highlights for the Fiscal Year Ending June 30, 2018**

The FY 2017-18 budget presented a balanced budget with an unchanged property tax rate of 57.5 cents per \$100 of property valuation.

The Town of Rutherfordton Council Members have maintained strategic goals that are broken into five focus areas for the fiscal year budget. The five focus areas are Outdoor Recreation, Commercial and Retail Development, Highway 221 Bypass Redevelopment, Infrastructure Improvement and Maintenance, and Being a Responsive Government. Economic development and the recruitment of new industry into the Town of Rutherfordton continues to be one of the primary priorities of the Commissioners strategic goals. The economic development focus area identifies key strategic benchmarks to grow the Town's tax base and increase local jobs.

**Business-Type Activities.** The solid waste household fees and current tipping fees were budgeted based on the adopted rate schedule for the 2018 budget year. Management has set rates to not only cover current operational costs, but to budget for future capital needs.

### **Requests for Information**

This financial report is designed to provide an overview of the Town of Rutherfordton's finances for all of those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be directed to the Town of Rutherfordton Finance Director, 129 North Main Street, North Carolina.

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## TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF NET POSITION  
JUNE 30, 2017

	Primary Government			Component Units		
	Governmental Activities	Business-Type Activities	Total	Town of Rutherfordton ABC Board	Rutherfordton Town Revitalization, Inc.	Norris Library Foundation, Inc.
<b>Assets:</b>						
Current assets:						
Cash and investments	\$ 2,270,731	\$ 688,458	\$ 2,959,189	\$ 79,709	\$ 30,852	\$ 127,461
Taxes receivable, net	105,599	-	105,599	-	-	-
Receivables, net	467,163	115,751	582,914	-	2,000	-
Inventory	-	-	-	224,935	468	-
Prepaid items	22,384	479	22,863	3,486	-	-
Restricted cash	319,240	-	319,240	-	-	-
Total current assets	<u>3,185,117</u>	<u>804,688</u>	<u>3,989,805</u>	<u>308,130</u>	<u>33,320</u>	<u>127,461</u>
Non-current assets:						
Capital assets:						
Land	292,254	18,750	311,004	5,098	-	-
Other capital assets, net of depreciation	4,102,677	6,765,594	10,868,271	24,735	-	-
Total capital assets	<u>4,394,931</u>	<u>6,784,344</u>	<u>11,179,275</u>	<u>29,833</u>	<u>-</u>	<u>-</u>
Restricted assets:						
Endowment Fund	306,367	-	306,367	-	-	-
Total assets	<u>7,886,415</u>	<u>7,589,032</u>	<u>15,475,447</u>	<u>337,963</u>	<u>33,320</u>	<u>127,461</u>
<b>Deferred Outflows of Resources:</b>						
Promotion costs	-	-	-	-	998	-
Contributions to pension plan in current fiscal year	139,022	2,955	141,977	-	-	-
Pension deferrals	387,979	7,923	395,902	25,082	-	-
Total deferred outflows of resources	<u>527,001</u>	<u>10,878</u>	<u>537,879</u>	<u>25,082</u>	<u>998</u>	<u>-</u>
<b>Liabilities:</b>						
Current liabilities:						
Accounts payable	57,193	33,672	90,865	128,508	1,042	-
Accrued payroll and other liabilities	103,782	2,091	105,873	8,867	-	-
Due within one year	152,543	31,317	183,860	-	-	-
Total current liabilities	<u>313,518</u>	<u>67,080</u>	<u>380,598</u>	<u>137,375</u>	<u>1,042</u>	<u>-</u>
Long-term liabilities:						
Due in more than one year	582,810	250,704	833,514	-	-	-
Net pension liability - LGERS	603,520	12,595	616,115	27,378	-	-
Total pension liability - LEOSSA	276,871	-	276,871	-	-	-
Total long-term liabilities	<u>1,463,201</u>	<u>263,299</u>	<u>1,726,500</u>	<u>27,378</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>1,776,719</u>	<u>330,379</u>	<u>2,107,098</u>	<u>164,753</u>	<u>1,042</u>	<u>-</u>
<b>Deferred Inflows of Resources:</b>						
Promotion advances	-	-	-	-	3,045	-
Prepaid taxes	176	-	176	-	-	-
Pension deferrals	61,812	1,335	63,147	959	-	-
Total deferred inflows of resources	<u>61,988</u>	<u>1,335</u>	<u>63,323</u>	<u>959</u>	<u>3,045</u>	<u>-</u>
<b>Net Position:</b>						
Net investment in capital assets	3,820,265	6,503,946	10,324,211	29,833	-	-
Restricted for:						
Stabilization for State statute	467,163	-	467,163	-	-	-
Public safety	7,905	-	7,905	-	-	-
Powell Bill - Streets	224,810	-	224,810	-	-	-
Cultural and recreation	81,481	-	81,481	-	-	-
Recreation endowment	67,606	-	67,606	-	-	-
Perpetual maintenance	552,216	-	552,216	-	-	-
Temporarily restricted	-	-	-	-	-	4,282
Permanently restricted	-	-	-	-	-	22,110
Working capital	-	-	-	39,464	-	-
Unrestricted	<u>1,353,263</u>	<u>764,250</u>	<u>2,117,513</u>	<u>128,036</u>	<u>30,231</u>	<u>101,069</u>
Total net position	<u>\$ 6,574,709</u>	<u>\$ 7,268,196</u>	<u>\$ 13,842,905</u>	<u>\$ 197,333</u>	<u>\$ 30,231</u>	<u>\$ 127,461</u>

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

TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs:</b>				
<b>Primary Government:</b>				
<b>Governmental Activities:</b>				
General government	\$ 900,017	\$ 52,607	\$ 19,013	\$ -
Public safety	1,841,908	47,887	49,301	-
Transportation and environmental protection	924,032	1,385	210,878	-
Cultural and recreation	457,699	23,046	-	-
Interest on long-term debt	16,168	-	-	-
Total governmental activities	<u>4,139,824</u>	<u>124,925</u>	<u>279,192</u>	<u>-</u>
<b>Business-Type Activities:</b>				
Sewer	1,039,503	905,158	-	83,032
Total primary government	<u>\$ 5,179,327</u>	<u>\$ 1,030,083</u>	<u>\$ 279,192</u>	<u>\$ 83,032</u>
<b>Component Units:</b>				
ABC Board	\$ 1,369,462	\$ 1,341,020	\$ -	\$ -
Rutherford Town Revitalization	23,039	25,125	6,500	-
Norris Public Library	25,701	20,870	12,216	-
Total component units	<u>\$ 1,351,458</u>	<u>\$ 1,263,124</u>	<u>\$ 38,792</u>	<u>\$ -</u>

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

TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2017

	Net (Expense) Revenue and Changes in Net Position			Component Units		
	Primary Government			Town of Rutherfordton ABC Board	Rutherfordton Town Revitalization, Inc.	Norris Library Foundation, Inc.
	Governmental Activities	Business-Type Activities	Total			
<b>Functions/Programs:</b>						
<b>Primary Government:</b>						
<b>Governmental Activities:</b>						
General government	\$ (828,397)	\$ -	\$ (828,397)			
Public safety	(1,744,720)	-	(1,744,720)			
Transportation and environmental protection	(711,769)	-	(711,769)			
Cultural and recreation	(434,653)	-	(434,653)			
Interest on long-term debt	(16,168)	-	(16,168)			
Total governmental activities	<u>(3,735,707)</u>	<u>-</u>	<u>(3,735,707)</u>			
<b>Business-Type Activities:</b>						
Sewer	-	(51,313)	(51,313)			
Total primary government	<u>(3,735,707)</u>	<u>(51,313)</u>	<u>(3,787,020)</u>			
<b>Component units:</b>						
ABC Board				\$ (28,442)	\$ -	\$ -
Rutherford Town Revitalization				-	8,586	-
Norris Public Library				-	-	7,385
Total component units				<u>(28,442)</u>	<u>8,586</u>	<u>7,385</u>
<b>General Revenues:</b>						
Taxes:						
Property taxes, levied for general purpose	1,895,588	-	1,895,588	-	-	-
Local option sales tax	829,915	-	829,915	-	-	-
Other taxes and licenses	784,070	-	784,070	-	-	-
Investment earnings, unrestricted	17,183	1,607	18,790	145	27	-
Miscellaneous, unrestricted	65,922	-	65,922	-	-	-
Total general revenues	<u>3,592,678</u>	<u>1,607</u>	<u>3,594,285</u>	<u>145</u>	<u>27</u>	<u>-</u>
Change in net position	<u>(143,029)</u>	<u>(49,706)</u>	<u>(192,735)</u>	<u>(28,297)</u>	<u>8,613</u>	<u>7,385</u>
<b>Net Position:</b>						
Beginning of year - July 1	6,713,059	7,317,902	14,030,961	225,630	21,618	120,076
Restatement	4,679	-	4,679	-	-	-
Beginning of year - July 1 restated	<u>6,717,738</u>	<u>7,317,902</u>	<u>14,035,640</u>	<u>225,630</u>	<u>21,618</u>	<u>120,076</u>
End of year - June 30	<u>\$ 6,574,709</u>	<u>\$ 7,268,196</u>	<u>\$ 13,842,905</u>	<u>\$ 197,333</u>	<u>\$ 30,231</u>	<u>\$ 127,461</u>

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

## TOWN OF RUTHERFORDTON, NORTH CAROLINA

BALANCE SHEET - GOVERNMENTAL FUNDS  
JUNE 30, 2017

	Major Funds		Total Governmental Funds
	General Fund	Permanent Fund	
<b>Assets:</b>			
Cash and investments	\$ 1,957,276	\$ 313,455	\$ 2,270,731
Restricted cash and investments	319,240	306,367	625,607
Taxes receivable, net	105,599	-	105,599
Other receivables, net	467,163	-	467,163
Prepaid items	22,384	-	22,384
Total assets	<u>\$ 2,871,662</u>	<u>\$ 619,822</u>	<u>\$ 3,491,484</u>
<b>Liabilities, Deferred Inflows of Resources, and Fund Balances:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 57,193	\$ -	\$ 57,193
Accrued payroll and other liabilities	103,782	-	103,782
Total liabilities	<u>160,975</u>	<u>-</u>	<u>160,975</u>
<b>Deferred Inflows of Resources:</b>			
Property taxes receivable	105,599	-	105,599
Prepaid taxes	176	-	176
Total deferred inflows of resources	<u>105,775</u>	<u>-</u>	<u>105,775</u>
<b>Fund Balances:</b>			
Non-spendable:			
Perpetual maintenance	-	552,216	552,216
Prepaid items	22,384	-	22,384
Restricted:			
Stabilization by State statute	467,163	-	467,163
Restricted for recreation endowment	-	67,606	67,606
Restricted, all other	319,240	-	319,240
Unassigned	1,796,125	-	1,796,125
Total fund balances	<u>2,604,912</u>	<u>619,822</u>	<u>3,224,734</u>
Total liabilities, deferred inflows of resources, and fund balances	<u>\$ 2,871,662</u>	<u>\$ 619,822</u>	<u>\$ 3,491,484</u>

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

Total fund balances	\$ 3,224,734
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,394,931
Deferred inflows in the governmental funds are used to offset accounts receivable not expected to be available within 90 days of year-end. These receivables are a component of net assets in the Statement of Net Position.	105,599
Long-term liabilities and compensated absences are not due and payable in the current period, and therefore, are not reported in the funds.	(735,353)
Net pension liability LGERS	(603,520)
Total pension liability LEOSSA	(276,871)
Contributions to pension plans in the current fiscal year are deferred outflows of resources on the Statement of Net Position.	139,022
Pension related deferrals	<u>326,167</u>
Net position of governmental activities	<u>\$ 6,574,709</u>

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

## TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	Major Funds		Total Governmental Funds
	General Fund	Permanent Fund	
<b>Revenues:</b>			
Ad valorem taxes	\$ 1,912,060	\$ -	\$ 1,912,060
Unrestricted intergovernmental revenues	1,300,967	-	1,300,967
Restricted intergovernmental revenues	294,825	-	294,825
Sales and services	422,310	-	422,310
Investment earnings	9,976	7,207	17,183
Miscellaneous	61,103	-	61,103
Total revenues	4,001,241	7,207	4,008,448
<b>Expenditures:</b>			
Current:			
General government	808,324	-	808,324
Public safety	1,804,297	-	1,804,297
Transportation and environmental protection	1,169,324	-	1,169,324
Cultural and recreational	372,680	-	372,680
Debt service:			
Principal retirement	130,539	-	130,539
Interest and other charges	16,168	-	16,168
Total expenditures	4,301,332	-	4,301,332
Revenues over (under) expenditures	(300,091)	7,207	(292,884)
<b>Other Financing Sources (Uses):</b>			
Sale of capital assets	23,517	-	23,517
Net change in fund balances	(276,574)	7,207	(269,367)
<b>Fund Balances:</b>			
Beginning of year - July 1	2,881,486	612,615	3,494,101
End of year - June 30	\$ 2,604,912	\$ 619,822	\$ 3,224,734

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

## TOWN OF RUTHERFORDTON, 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, 2017

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

Total net change in fund balances - total governmental funds	\$ (269,367)
Property tax revenues and other fees and services in the Statement of Activities that do not provide current financial resources are not reported as revenues in the governmental funds statement.	(16,472)
Expenses related to compensated absences that do not require current financial resources are not reported as expenditures in the governmental funds statement.	(24,217)
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.	509,359
Change in deferred outflow - pension	406,369
Change in deferred inflows - pension	37,498
Change in net pension liability	(470,395)
Pension expense - LEOSA	(19,925)
Depreciation expense allocates the costs of capital assets over their useful lives. It is not reported as an expenditure in the governmental funds statement.	(407,720)
In the Statement of Activities, only the gain or loss on disposal of capital assets is reported, whereas, in the governmental funds, the proceeds from the sale increase financial resources. Thus, the change in net position differs from the change in fund balance by the net book value of the capital assets disposed of.	(18,698)
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.	<u>130,539</u>
Total change in net position of governmental activities	<u>\$ (143,029)</u>

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



## TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	General Fund			
	Budgeted Amounts		Actual	Variance from Final Budget Over/Under
	Original	Final		
<b>Revenues:</b>				
Ad valorem taxes	\$ 1,928,906	\$ 1,928,906	\$ 1,912,060	\$ (16,846)
Unrestricted intergovernmental revenues	1,155,546	1,155,546	1,300,967	145,421
Restricted intergovernmental revenues	167,718	859,392	294,825	(564,567)
Sales and services	363,662	369,362	422,310	52,948
Investment earnings	62,100	2,100	9,976	7,876
Miscellaneous	6,200	141,372	61,103	(80,269)
Total revenues	<u>3,684,132</u>	<u>4,456,678</u>	<u>4,001,241</u>	<u>(455,437)</u>
<b>Expenditures:</b>				
Current:				
General government	622,796	817,993	808,324	9,669
Public safety	1,744,433	2,108,070	1,804,297	303,773
Transportation and environmental protection	1,093,775	1,225,288	1,169,324	55,964
Cultural and recreational	290,299	804,328	372,680	431,648
Debt service:				
Principal retirement	120,661	130,539	130,539	-
Interest and other charges	24,596	16,168	16,168	-
Total expenditures	<u>3,896,560</u>	<u>5,102,386</u>	<u>4,301,332</u>	<u>801,054</u>
Revenues over (under) expenditures	<u>(212,428)</u>	<u>(645,708)</u>	<u>(300,091)</u>	<u>345,617</u>
<b>Other Financing Sources (Uses):</b>				
Sale of capital assets	25,000	25,000	23,517	(1,483)
Transfers from other funds	-	39,806	-	(39,806)
Transfers to other funds	-	(39,806)	-	39,806
Appropriated fund balance	<u>187,428</u>	<u>620,708</u>	<u>-</u>	<u>(620,708)</u>
Total other financing sources (uses)	<u>212,428</u>	<u>645,708</u>	<u>23,517</u>	<u>(622,191)</u>
Net change in fund balance	<u>\$ -</u>	<u>\$ -</u>	<u>(276,574)</u>	<u>\$ (276,574)</u>
<b>Fund Balance:</b>				
Beginning of year - July 1			<u>2,881,486</u>	
End of year - June 30			<u>\$ 2,604,912</u>	

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

## TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF NET POSITION  
PROPRIETARY FUND  
JUNE 30, 2017

	<b>Business-Type Activities</b>
	<b>Major</b>
	<b>Sewer Fund</b>
<b>Assets:</b>	
Current assets:	
Cash and cash equivalents	\$ 688,458
Accounts receivable, net	115,751
Prepays	479
Total current assets	<u>804,688</u>
Non-current assets:	
Capital assets:	
Land	18,750
Other capital assets, net of depreciation	6,765,594
Total non-current assets	<u>6,784,344</u>
Total assets	<u>7,589,032</u>
<b>Deferred Outflows of Resources:</b>	
Contributions to pension plan in current fiscal year	2,955
Pension deferrals	7,923
Total deferred outflows of resources	<u>10,878</u>
<b>Liabilities:</b>	
Current liabilities:	
Accounts payable	33,672
Accrued payroll	2,091
Current portion of long-term obligations	31,317
Total current liabilities	<u>67,080</u>
Non-current liabilities:	
Compensated absences	1,623
Net pension liability	12,595
Notes payable	249,081
Total non-current liabilities	<u>263,299</u>
Total liabilities	<u>330,379</u>
<b>Deferred Inflows of Resources</b>	<u>1,335</u>
<b>Net Position:</b>	
Net investment in capital assets	6,503,946
Unrestricted	764,250
Total net position	<u>\$ 7,268,196</u>

The accompanying notes are an integral part of the financial statements. 20

## TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES  
IN FUND NET POSITION - PROPRIETARY FUND  
FOR THE YEAR ENDED JUNE 30, 2017

	<u>Business-Type Activities</u>
	<u>Major</u>
	<u>Sewer Fund</u>
<b>Operating Revenues:</b>	
Charges for services	\$ 905,158
<b>Operating Expenses:</b>	
Administration	66,273
Other operating expenses	650,594
Depreciation	315,798
Total operating expenses	<u>1,032,665</u>
Operating income (loss)	<u>(127,507)</u>
<b>Non-Operating Revenues (Expenses):</b>	
Interest income	1,607
Interest expense	<u>(6,838)</u>
Total non-operating revenues (expenses)	<u>(5,231)</u>
Change in net position before capital contribution	(132,738)
Capital contribution	<u>83,032</u>
Change in net position	(49,706)
<b>Net Position:</b>	
Beginning of year - July 1	<u>7,317,902</u>
End of year - June 30	<u>\$ 7,268,196</u>

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

## TOWN OF RUTHERFORDTON, NORTH CAROLINA

STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED JUNE 30, 2017

	<b>Business-Type Activities</b>
	<b>Major</b>
	<b>Sewer Fund</b>
<b>Cash Flows from Operating Activities:</b>	
Cash received from customers	\$ 947,341
Cash paid for goods and services	(637,012)
Cash paid to employees for services	(64,706)
Net cash provided (used) by operating activities	<u>245,623</u>
<b>Cash Flows from Capital and Related Financing Activities:</b>	
Acquisition and construction of capital assets	(308,961)
Capital contributions	83,032
Long-term debt payments	(31,156)
Interest paid	(6,838)
Net cash provided (used) for capital and related financing activities	<u>(263,923)</u>
<b>Cash Flows from Investing Activities:</b>	
Interest on investments	<u>1,607</u>
Net increase (decrease) in cash and cash equivalents	(16,693)
<b>Cash and Cash Equivalents:</b>	
Beginning of year - July 1	<u>705,151</u>
End of year - June 30	<u>\$ 688,458</u>
<b>Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:</b>	
Operating income (loss)	\$ (127,507)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	315,798
Changes in assets and liabilities:	
Increase in deferred outflows of resources - pension	(8,293)
Increase in net pension liability	9,600
(Increase) decrease in accounts receivable	42,183
(Increase) decrease in prepaid expense	(479)
Increase (decrease) in accounts payable and accrued liabilities	14,166
Increase (decrease) in accrued vacation pay	920
Increase (decrease) in deferred inflows of resources - pension	(765)
Total adjustments	<u>373,130</u>
Net cash provided (used) by operating activities	<u>\$ 245,623</u>

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

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### 1. Summary of Significant Accounting Policies

The accounting policies of the Town of Rutherfordton, North Carolina (the Town) and its discretely presented component units 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, which is governed by an elected mayor and a four-member council. The municipality utilizes the council-manager form of government. As required by accounting principles generally accepted in the United States of America, these financial statements present the Town and its component units, legally separate entities for which the Town is financially accountable. The discretely presented component units presented below are reported in separate columns in the Town's financial statement in order to emphasize that they are legally separate from the Town.

##### **Town of Rutherfordton ABC Board**

The members of the ABC Board's governing board are appointed by the Town. In addition, the ABC Board is required by State statute to distribute its surpluses to the General Fund of the Town. The ABC Board, which has a June 30 year-end, is presented as if it were a Proprietary Fund (discrete presentation). Complete financial statements for the ABC Board may be obtained from the entity's administrative office located at Highway 221 South, Rutherfordton, NC 28139.

##### **Rutherford Town Revitalization, Inc.**

The Rutherford Town Revitalization (RTR) serves as a liaison between the Town of Rutherfordton and the Town's merchants. RTR was organized to improve the Town's economic growth as well as to develop preservation and beautification projects within the district. RTR is governed by fourteen members, two of which are appointed by the Town of Rutherfordton's Council. The Town pays all administrative and operating expenses of RTR; therefore RTR is fiscally dependent on the Town. Complete financial statements for RTR may be obtained from the entity's administrative offices at 146 North Main Street, Rutherfordton, NC 28139.

##### **Norris Library Foundation, Inc.**

The Norris Public Library is a library available to all citizens of Rutherford County. The Foundation is governed by a twenty member board, all of which are appointed independent of the Town. The library salary costs are fully funded through the Town's General Fund; therefore, the Library is fiscally dependent on the Town. Complete financial statements for the Norris Library Foundation, Inc. may be obtained from the entity's administrative offices at 132 North Main Street, Rutherfordton, NC 28139.

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### B. Basis of Presentation

*Government-Wide Statements.* The Statement of Net Position and the Statement of Activities display information about the primary government and its component units. These statements include the financial activities of the overall government. These statements distinguish between the *governmental* and *business-type* activities of the Town. Eliminations have been made to minimize the double counting of internal activities. 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. Currently, the Town has no nonmajor funds.

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

The Town reports the following major governmental funds:

**General Fund.** The General Fund is the general operating fund of the Town. The General Fund accounts for all financial resources except those that are required to be accounted for in another fund. The primary revenue sources are ad valorem taxes and State-shared revenues. The primary expenditures are for public safety, street maintenance and sanitation service.

**Permanent Fund.** Pursuant to the authority granted by the North Carolina Session Law of 1981, Chapter 403, the Town Council adopted an ordinance creating a perpetual recreation trust fund. The fund is authorized to receive undesignated gifts, grants and bequests of tangible and intangible properties. The principal of the fund shall constitute a perpetual trust fund, and no part of the principal shall be expended for any purpose.

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

The Town reports the following major enterprise fund:

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

### C. Measurement Focus and Basis of Accounting

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

*Government-wide and Proprietary Fund Financial Statements.* The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and 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, such as ad valorem taxes, are recognized in the fiscal year for which the taxes are levied. Revenues from grants and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town enterprise funds 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 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 a revenue because the amount is not susceptible to accrual. At June 30, taxes receivable for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

Sales taxes and certain intergovernmental revenues, such as the utilities sales tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Sales taxes are considered a shared revenue for the Town because the tax is levied by Rutherford County and then remitted to and distributed by the State. Most intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. All taxes, including those dedicated for specific purposes are reported as general revenues rather than program revenues.

Under the terms of grant agreements, the Town funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus when program expenses are incurred, there are both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

### **D. Budgetary Data**

The Town's budget is adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General and Enterprise Funds. 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 departmental level for all annually budgeted funds. The governing board must approve any revision of the original budget. During the year, several amendments to the original budget were necessary. 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. The Permanent Fund is not required to be budgeted.

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

#### **Deposits and Investments**

All deposits of the Town, the ABC Board, RTR and the Library are made in board-designated official depositories and are secured as required by State law (G.S. 159-31). The Town, the ABC Board, RTR and the Library may designate, as an official depository, any bank or savings association whose principal office is located in North Carolina. Also, the Town, the ABC Board, RTR and the Library may establish time deposit accounts such as NOW and SuperNOW accounts, money market accounts, and certificates of deposit.



# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

State law (G.S. 159-30(c)) authorizes the Town, the ABC Board, RTR and the Library 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 nonguaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances; and the North Carolina Cash Management Trust (NCCMT).

The Town's, the ABC Board, RTR, and the Library's investments are reported at fair value. Non-participating interest earning contracts are accounted for at cost. The NCCMT- Government Portfolio, a SEC-registered (2a-7) external investment pool, is measured at amortized cost, which is the NCCMT's share price. The NCCMT- Term Portfolio's securities are valued at fair value.

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

### 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. The ABC Board, RTR and the Library consider all investments and other highly liquid debt instrument purchases with a maturity of three months or less to be cash and cash equivalents.

### Restricted Assets

Powell Bill funds are classified as restricted cash because they can be expended only for the purposes of maintaining, repairing, constructing, reconstructing or widening of local streets per G.S. 136-41.1 through 136-41.4. The police department receives revenue from the State from the illegal substance tax and these funds are restricted for use by the department. The Permanent Fund received donation of investment that restricts its use to the Permanent Fund. Cultural and Recreation has cash that is restricted for culture and recreational uses only. The unexpended debt proceeds are classified as restricted assets because their use is completely restricted to the purpose for which the debt was originally issued.

<u>Town of Rutherfordton - Restricted Cash</u>	
<b>Governmental Activities:</b>	
General Fund	
Streets	\$ 224,810
Public safety - police	7,905
Permanent Fund	306,367
Cultural and recreational	81,481
Debt service	5,044
Total restricted cash	<u>\$ 625,607</u>

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### 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, 2016.

### 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.

### Inventories and Prepaid Items

The inventories of the ABC board are valued at cost (first-in, first-out), which approximates market. It consists of products held for subsequent resale. The cost of this inventory is expensed when sold rather than purchased. Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements and expensed as the items are used.

### Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years.

The Town began capitalizing public domain (“infrastructure”) capital assets consisting of roads, bridges, curbs and gutters, streets and sidewalks, drainage systems and lighting systems as of July 1, 2003. Infrastructure assets exceeding the Town’s capitalization threshold of \$500 will be reported as capital assets in the Statement of Net Position. General governmental infrastructure assets acquired prior to July 1, 2003 were not retroactively reported. Donated capital assets received prior to June 30, 2015 are recorded at their estimated fair value at the date of donation. Donated capital assets received after June 30, 2015 are recorded at acquisition value. All other purchased or constructed capital assets are reported at cost or estimated historical cost.

Governmental fund capital assets of the Town are depreciated using the straight-line method over the assets’ estimated useful lives. These assets are reported in the Town’s basic financial statements net of accumulated depreciation. The estimated useful lives for the Town’s governmental capital assets are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Building and improvements	15-50 years
Equipment and vehicles	5-15 years

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Proprietary fund capital assets of the Town are depreciated using the straight-line method over the assets' estimated useful lives. These assets are reported in the Town's basic financial statements net of accumulated depreciation. The estimated useful lives for the Town's proprietary fund capital assets are as follows:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Pump stations and sewer lines	20-50 years
Wastewater treatment plant	10-40 years
Streets	10 years
Equipment	5-10 years

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Building	30 years
Store equipment	10 years
Leasehold improvements	5 years
Office equipment	10 years

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Sign	10 years
Office equipment	5 years

The Library does not have capital assets.

### **Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *Deferred Outflows of Resources*, represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The Town has two items that meet this criterion: contributions made to the pension plan in the 2017 fiscal year and pension deferrals.

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

In addition to liabilities, the Statement of Net Position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *Deferred Inflows of Resources*, represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The Town has several items that meet this criterion – property taxes receivable, prepaid taxes, and deferrals of pension expense that result from the implementation of GASB statement 68.

### Compensated Absences

Each employee, except for police and fire, of the Town working the basic work week of 40 hours per week shall earn annual leave at the following rates:

<u>Years of Service</u>	<u>Accrued Per Year</u>
1-9	10 days per year
10+	15 days per year

Police department employees earn vacation leave at the following rate:

<u>Years of Service</u>	<u>Accrued Per Year</u>
1-9	96 hours per year
10+	144 hours per year

Fire department employees earn vacation leave at the following rate:

<u>Years of Service</u>	<u>Accrued Per Year</u>
1-9	112 hours per year
10+	168 hours per year

Vacation leave earned by regular employees having a work week with fewer or greater than 40 hours per week shall be calculated in accordance with a formula set forth in the Town's policy. The results of the calculation will adjust the employees accrual either up or down depending on their individual circumstance.

Vacation leave may be accumulated up to 30 days per year maximum. Vacation accumulated beyond this amount will automatically roll to sick leave at the end of the calendar year. If the employee separates from service, payment for accumulated annual leave shall not exceed 30 days. The Town records a liability for accrued vacation.

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

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### **Long-Term Obligations**

In the government-wide financial statements and in the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type Statement of Net Position.

In the fund financial statements for governmental fund types, the face amount of debt issued is reported as other financing sources.

The Town's long-term debt for the sewer system improvements is carried within the Enterprise Fund. The debt service requirements for that debt are being met by sewer revenues.

### **Net Position/Fund Balances**

#### **Net Position**

Net position in government-wide and proprietary fund financial statements are classified as net investment in capital assets; restricted; and unrestricted. Restricted net position represents constraints on resources that are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or imposed by law through State statute.

#### **Fund 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* – cash and shares of common stock held in the Rutherfordton Recreation Trust Fund.

*Prepaid Items* – portion of fund balance that is not an available resource because it represents the year of the amounts held on deposit by a vendor of the Town.

#### **Restricted Fund Balance**

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

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

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

*Restricted for Public Safety* – portion of fund balance that is restricted by revenue source for public safety expenditures.

*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 Cultural and Recreation* – portion of fund balance that is restricted by revenue source for downtown revitalization.

*Restricted for Debt Service* – portion of fund balance that is restricted by revenue source for purpose of original debt approved by the Town.

*Restricted for Recreation Endowment* – portion of fund balance that is restricted by revenue source for recreation trust fund.

Restricted fund balance at June 30, 2017 is as follows:

<u>Purpose</u>	<u>General Fund</u>	<u>Permanent Funds</u>	<u>Total Restricted</u>
Restricted, all other:			
Public safety	\$ 7,905	\$ -	\$ 7,905
Streets	224,810	-	224,810
Cultural and recreation	81,481	-	81,481
Debt service	5,044	-	5,044
Recreation endowment	-	67,606	67,606
<b>Total</b>	<u>\$ 319,240</u>	<u>\$ 67,606</u>	<u>\$ 386,846</u>

Restricted net position on Exhibit A varies from restricted fund balance on Exhibit C as of June 30, 2017 by the amount of unspent debt proceeds of \$5,044 and the amount of perpetual maintenance of \$552,216 for a net total of \$547,172.

### **Committed Fund Balance**

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

### **Assigned Fund Balance**

Assigned fund balance is the portion of fund balance that the Town intends to use for specific purposes. The Town’s governing body has the authority to assign fund balance. The Manager, as granted in the officially adopted budget ordinance, has been granted limited authority to assign fund balance.

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### **Unassigned Fund Balance**

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

The Town of Rutherfordton does not have a formal revenue spending policy. For purposes of fund balance classification, it is the practice of the Finance Officer to use restricted resources before any other designation of fund balance.

The Town of Rutherfordton has not adopted a minimum fund balance policy.

### **Defined Benefit Cost-Sharing Plans**

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Local Governmental Employees' Retirement System (LGERS) and additions to/deductions from LGERS' fiduciary net position have been determined on the same basis as they are reported by LGERS. For this purpose, plan member contributions are recognized in the period in which the contributions are due. The Town of Rutherfordton's employer contributions are recognized when due and the Town has a legal requirement to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of LGERS. Investments are reported at fair value.

## **2. Stewardship, Compliance, and Accountability**

### **Non-Compliance with North Carolina General Statutes.**

Marketable securities held by the Town violate the investment regulations of G.S. 159-30. The marketable securities were gifted by citizens of the Town. Because of the tremendous growth potential of the securities, the donors requested that the Town retain the stock. The Town intends to honor the request and does not foresee disposing of the securities until it is believed that profits can be maximized.

The Town did not properly review or timely identify errors in reporting of payroll data as it relates to retirement contributions and pay rates which is a violation G.S 128-30 (g).

## **3. Detail Notes on All Funds**

### **A. Assets**

#### **Deposits**

All the deposits of the Town, ABC Board, RTR and Library are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's, ABC Board's, RTR's or Library's agent in the unit's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, ABC Board, RTR, and Library, these deposits are considered to be held by the

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Town's, ABC Board's, RTR's and Library's agents in their names. 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, ABC Board, RTR, the Library, or their escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town, ABC Board, RTR, or the Library under the Pooling Method, the potential exists for under-collateralization. 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, ABC Board, RTR, and the Library comply with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured. The Town, ABC Board, RTR, and the Library do not have a formal policy for custodial credit risk for deposits.

On June 30, 2017, the Town's deposits had a carrying amount of \$1,507,201 and a bank balance of \$1,581,106. For the bank balance, \$255,044 was covered by federal depository insurance and the remaining balance was covered by the pooling method. At June 30, 2017, the Town's petty cash totaled \$275.

The carrying amount of the deposits for the ABC Board was \$79,709 and a bank balance of \$83,326. All of the bank balance of the ABC Board was covered by federal depository insurance.

The carrying amount of the deposits for RTR was \$30,852 and a bank balance of \$30,852. All of the bank balance of RTR was covered by federal depository insurance.

The carrying amount of the deposits for the Library was \$16,140 and bank balance was \$16,140, all of which was covered by federal depository insurance. The Library's petty cash totaled \$50.

### Investments

At June 30, 2017, the Town's investment balances were as follows:

<u>Investment Type</u>	<u>Valuation Measurement</u>		<u>Less Than</u>		
	<u>Method</u>	<u>Fair Value</u>	<u>6 Months</u>	<u>Rating</u>	<u>%</u>
Dominion Resources Inc	Fair Value - Level 1	\$ 306,367	NA	Unrated	15%
North Carolina Capital Management Trust Government Portfolio	Amortized Cost	1,377,786	NA	AAAm	66%
North Carolina Capital Management Trust Term Portfolio*	Fair Value - Level 1	<u>393,167</u>	393,167	Unrated	<u>19%</u>
Total		<u>\$ 2,077,320</u>			<u>100%</u>

*\*This is the duration of the Term Portfolio*



# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

All investments are measured using the market approach: using prices and other relevant information generated by market transactions involving identical or comparable assets or a group of assets.

Level of fair value hierarchy: Level 1: Debt securities are valued using directly observable, quoted prices (unadjusted) in active markets for identical assets.

*Interest Rate Risk* – The Town does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

*Credit Risk* – The Town has no formal policy regarding credit risk, but has internal management procedures that limits the Town’s investments to the provisions of G.S. 159-30 and restricts the purchase of securities to the highest possible ratings whenever particular types of securities are rated.

The Town’s investment in marketable securities is unrated. The Town’s investment in the NC Capital Management Trust Government Portfolio carried a credit rating of AAAM by Standard & Poor’s as of June 30, 2017. The Town’s investment in the NC Capital Management Trust Term Portfolio is unrated. The Term Portfolio is authorized to invest in obligations of the U.S. government and agencies, and in high grade money market instruments as permitted under North Carolina General Statutes 159-30 as amended.

*Concentration of Credit Risk* – The Town places no limit on the amount that the Town may invest in any one issuer. Each of the Town’s investments represents more than 5% of total investments and the concentration percentages are listed in the table above.

The Rutherfordton Recreation Trust Fund (Fiduciary) holds 3,998 shares of common stock in Dominion Resources, Inc., received as a gift to the Trust. These stocks are being held according to the terms of the unitrust agreements and terms stipulated by the donors. The value at the date of the gift was \$28,660. At June 30, 2017, there is an unrealized gain to market value of \$277,707.

The marketable securities are in violation of G.S. 159-30.

At June 30, 2017, the Library had the following investments:

<u>Investment Type</u>	<u>Valuation Measurement Method</u>	<u>Fair Value</u>	<u>Less Than 6 Months</u>	<u>Rating</u>	<u>%</u>
Mutual funds	Fair Value - Level 1	\$ 84,879	NA	Unrated	76%
Beneficial interest in assets held by others	Fair Value - Level 3	26,392	NA	Unrated	24%
Total		<u>\$ 111,271</u>			<u>100%</u>

At June 30, 2017, the ABC Board had no investments.

**TOWN OF RUTHERFORDTON, NORTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Receivables**

At June 30, 2017, the Town's accounts receivables and allowance for doubtful account balances were as follows:

	<u>Accounts</u>	<u>Taxes and Accrued Interest</u>	<u>Due from Other Governments</u>	<u>Total</u>
<b>Governmental Activities:</b>				
General	\$ -	\$ 147,051	\$ 467,163	\$ 614,214
Allowance for doubtful accounts	-	(41,452)	-	(41,452)
Total governmental activities	<u>\$ -</u>	<u>\$ 105,599</u>	<u>\$ 467,163</u>	<u>\$ 572,762</u>
<b>Business-Type Activities:</b>				
Sewer	\$ 143,751	\$ -	\$ -	\$ 143,751
Allowance for doubtful accounts	(28,000)	-	-	(28,000)
Total business-type activities	<u>\$ 115,751</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 115,751</u>

Due from other governments that is owed to the Town consists of the following:

<u>Description</u>	<u>Total</u>
Sales and use tax	\$ 205,276
Utility franchise tax	103,554
Sales tax refund	90,037
Due from County	68,296
Total	<u>\$ 467,163</u>

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### Capital Assets

Capital asset activity for the Town for the year ended June 30, 2017 was as follows:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
<b>Governmental Activities:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 249,274	\$ 42,980	\$ -	\$ 292,254
 <b>Depreciable Capital Assets:</b>				
Buildings and building improvements	6,499,879	168,752	-	6,668,631
Equipment and vehicles	3,961,562	297,627	155,351	4,103,838
Computer equipment	79,834	-	-	79,834
Total depreciable capital assets	<u>10,541,275</u>	<u>466,379</u>	<u>155,351</u>	<u>10,852,303</u>
 <b>Less Accumulated Depreciation:</b>				
Buildings	3,654,752	181,197	-	3,835,949
Equipment and vehicles	2,777,838	217,120	136,653	2,858,305
Computer equipment	45,969	9,403	-	55,372
Total accumulated depreciation	<u>6,478,559</u>	<u>\$ 407,720</u>	<u>\$ 136,653</u>	<u>6,749,626</u>
Total depreciable capital assets, net	<u>4,062,716</u>			<u>4,102,677</u>
Governmental activities capital assets, net	<u>\$ 4,311,990</u>			<u>\$ 4,394,931</u>

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

General government	\$ 29,195
Public safety	114,711
Transportation and environmental	172,838
Culture and recreation	90,976
Total	<u>\$ 407,720</u>

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
<b>Business-Type Activities:</b>				
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 18,750	\$ -	\$ -	\$ 18,750
 <b>Depreciable Capital Assets:</b>				
Pump stations and sewer lines	5,291,801	174,097	-	5,465,898
Wastewater treatment plant	5,092,691	-	-	5,092,691
Streets	6,460	-	-	6,460
Equipment	358,532	134,864	-	493,396
Total depreciable capital assets	10,749,484	308,961	-	11,058,445
 <b>Less Accumulated Depreciation:</b>				
Pump stations and sewer lines	1,540,881	130,274	-	1,671,155
Wastewater treatment plant	2,320,121	133,020	-	2,453,141
Streets	6,460	-	-	6,460
Equipment	109,591	52,504	-	162,095
Total accumulated depreciation	3,977,053	\$ 315,798	\$ -	4,292,851
Total depreciable capital assets, net	6,772,431			6,765,594
Business-type activities capital assets, net	\$ 6,791,181			\$ 6,784,344

### Discretely Presented Component Units:

The capital assets of RTR for the year ended June 30, 2017 are as follows:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
<b>Depreciable Capital Assets:</b>				
Sign	\$ 4,362	\$ -	\$ -	\$ 4,362
Office equipment	2,213	-	2,213	-
Total depreciable capital assets	6,575	-	2,213	4,362
 <b>Less Accumulated Depreciation:</b>				
Sign	4,362	-	-	4,362
Office equipment	2,213	-	2,213	-
Total accumulated depreciation	6,575	\$ -	\$ 2,213	4,362
Total depreciable capital assets, net	-			-
Rutherfordton Town Revitalization capital assets, net	\$ -			\$ -

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

The capital asset activity of the ABC Board for the year ended June 30, 2017 was as follows:

	<u>July 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2017</u>
<b>Non-Depreciable Capital Assets:</b>				
Land	\$ 5,098	\$ -	\$ -	\$ 5,098
<b>Depreciable Capital Assets:</b>				
Building	173,707	-	-	173,707
Leasehold improvements	69,935	-	-	69,935
Store equipment	16,146	-	-	16,146
Office equipment	87,977	-	-	87,977
Total depreciable capital assets	<u>347,765</u>	<u>-</u>	<u>-</u>	<u>347,765</u>
<b>Less Accumulated Depreciation:</b>				
Building	172,640	241	-	172,881
Leasehold improvements	66,525	1,214	-	67,739
Store equipment	14,914	505	-	15,419
Office equipment	64,740	2,251	-	66,991
Total accumulated depreciation	<u>318,819</u>	<u>\$ 4,211</u>	<u>\$ -</u>	<u>323,030</u>
Total depreciable capital assets, net	<u>28,946</u>			<u>24,735</u>
ABC Board capital assets, net	<u>\$ 34,044</u>			<u>\$ 29,833</u>

The Library does not have capital assets.

### B. Liabilities

#### Payables

Payables at the government-wide level at June 30, 2017 were as follows:

	<u>Vendors</u>	<u>Salaries and Benefits</u>	<u>Total</u>
<b>Governmental Activities:</b>			
General	\$ 57,193	\$ 103,782	\$ 160,975
Total governmental activities	<u>\$ 57,193</u>	<u>\$ 103,782</u>	<u>\$ 160,975</u>
<b>Business-Type Activities:</b>			
Sewer	\$ 33,672	\$ 2,091	\$ 35,763
Total business-type activities	<u>\$ 33,672</u>	<u>\$ 2,091</u>	<u>\$ 35,763</u>

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### Pension Plan Obligations

#### Local Governmental Employees' Retirement System

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

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

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

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

*Contributions.* Contribution provisions are established by General Statute 128-30 and may be amended only by the North Carolina General Assembly. Town of Rutherfordton employees are required to contribute 6% of their compensation. Employer contributions are actuarially determined and set annually by the LGERS Board of Trustees. The Town of Rutherfordton's contractually required contribution rate for the year ended June 30, 2017, was 8.25% of compensation for law enforcement officers and 7.62% for general employees and firefighters, actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year. Contributions to the pension plan from the Town of Rutherfordton were \$136,129 for the year ended June 30, 2017.

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

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

At June 30, 2017, the Town reported a liability of \$616,115 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016. The total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of December 31, 2015. The total pension liability was then rolled forward to the measurement date of June 30, 2016 utilizing update procedures incorporating the actuarial assumptions. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of future payroll covered by the pension plan, relative to the projected future payroll covered by the pension plan of all participating LGERS employers, actuarially determined. At June 30, 2016, the Town's proportion was 0.029%, which was a decrease of 0.001% from its proportion measured as of June 30, 2015.

## TOWN OF RUTHERFORDTON, NORTH CAROLINA

### NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

For the year ended June 30, 2017, the Town recognized pension expense of \$163,199. At June 30, 2017, the Town reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Differences between expected and actual experience	\$ 11,576	\$ 21,589
Changes of assumptions	42,198	-
Net difference between projected and actual earnings on pension plan investment	340,633	-
Changes in proportion and differences between Town contributions and proportionate share of contributions	1,495	35,601
Town contributions subsequent to the measurement date	136,129	-
Total	\$ 532,031	\$ 57,190

\$136,129 reported as deferred outflows of resources related to pensions resulting from Town contributions subsequent to the measurement date will be recognized as a decrease of the net pension liability in the year ended June 30, 2018.

Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ending</b>	<b>Amount</b>
<b>June 30</b>	<b>Amount</b>
2018	\$ 43,903
2019	44,032
2020	157,180
2021	93,597
2022	-
Thereafter	-

*Actuarial Assumptions.* The total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.5 to 7.75 percent, including inflation and productivity factor
Investment rate of return	7.25 percent, net of pension plan investment expense, including inflation



# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

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

The projected long-term investment returns and inflation assumptions are developed through review of current and historical capital markets data, sell-side investment research, consultant whitepapers, and historical performance of investment strategies. Fixed income return projections reflect current yields across the U.S. Treasury yield curve and market expectations of forward yields projected and interpolated for multiple tenors and over multiple year horizons. Global public equity return projections are established through analysis of the equity risk premium and the fixed income return projections. Other asset categories and strategies' return projections reflect the foregoing and historical data analysis. These projections are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class as of June 30, 2016 are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Fixed Income	29.0%	1.4%
Global Equity	42.0%	5.3%
Real Estate	8.0%	4.3%
Alternatives	8.0%	8.9%
Credit	7.0%	6.0%
Inflation Protection	<u>6.0%</u>	4.0%
Total	<u>100%</u>	

The information above is based on 30-year expectations developed with the consulting actuary for the 2016 asset, liability, and investment policy study for the North Carolina Retirement Systems, including LGERS. The long-term nominal rates of return underlying the real rates of return are arithmetic annualized figures. The real rates of return are calculated from nominal rates by multiplicatively subtracting a long-term inflation assumption of 3.00%. All rates of return and inflation are annualized.

**TOWN OF RUTHERFORDTON, NORTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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

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

	<b>1% Decrease 6.25%</b>	<b>Discount Rate 7.25%</b>	<b>1% Increase 8.25%</b>
Total pension liability	\$ <u>1,462,326</u>	\$ <u>616,115</u>	\$ <u>(90,705)</u>

*Pension Plan Fiduciary Net Position.* Detailed information about the pension plan’s fiduciary net position is available in the separately issued Comprehensive Annual Financial Report (CAFR) for the State of North Carolina.

**Law Enforcement Officers Special Separation Allowance**

**Plan Description.** The Town of Rutherfordton 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 under the age of 62 who have completed at least 30 years of creditable service or have attained 55 years of age and have completed five years or more years of creditable service. The Separation Allowance is equal to .85 percent of the annual equivalent of the base rate of compensation most recently applicable to the officer for each year of creditable service. The retirement benefits are not subject to any increases in salary or retirement allowances that may be authorized by the General Assembly. Article 12D of G.S. Chapter 143 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly.

All full-time law enforcement officers of the Town are covered by the Separation Allowance.

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

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

Retirees receiving benefits	1
Terminated plan members entitled to, but not yet receiving, benefits	-
Active plan members	<u>15</u>
Total	<u><u>16</u></u>

A separate report was not issued for the plan.

### Summary of Significant Accounting Policies

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

The Separation Allowance has no assets accumulated in a trust that meets the following criteria which are outlined in GASB Statements 73.

*Actuarial Assumptions.* The entry age actuarial cost method was used in the December 31, 2015 valuation the total pension liability in the December 31, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0 percent
Salary increases	3.50 to 7.35 percent, including inflation and productivity factor
Discount rate	3.86 percent

The discount rate is based on the weekly average of the Bond Buyer General Obligation 20-year Municipal Bond Index determined at the end of each month.

**Deaths After Retirement (Healthy):** RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 104% for males and 100% for females.

**Deaths Before Retirement:** RP-2014 Employee base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015.

**Deaths After Retirement (Beneficiary):** RP-2014 Healthy Annuitant base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 123% for males and females.

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

**Deaths After Retirement (Disabled):** RP-2014 Disabled Retiree base rates projected to the valuation date using MP-2015, projected forward generationally from the valuation date using MP-2015. Rates are adjusted by 103% for males and 99% females.

**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. There were no contributions made by employees. The Town's obligation to contribute to this plan is established and may be amended by the North Carolina General Assembly. Administration costs of the Separation Allowance are financed through investment earnings. The Town paid \$10,984 as benefits came due for the reporting period.

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

At June 30, 2017, the Town reported a pension liability of \$276,871. The total pension liability was measured as of December 31, 2016 based on a December 31, 2015 actuarial valuation. The total pension liability was then rolled forward to the measurement date of December 31, 2016 utilizing update procedures incorporating actuarial assumptions. For the year ended June 30, 2017, the Town recognized pension expense of \$25,951.

	<b>Deferred Outflows of Resources</b>	<b>Deferred Inflows of Resources</b>
Changes of assumptions	\$ -	\$ 5,957
Town benefit payments and plan administrative expense made subsequent to the measurement date	5,848	-
Total	<b>\$ 5,848</b>	<b>\$ 5,957</b>

\$5,848 reported as deferred outflows of resources related to pensions resulting from benefit payments made and administrative expenses incurred subsequent to the measurement date will be recognized as a decrease of the total pension liability in the year ended June 30, 2018. Other amounts reported as deferred inflows of resources related to pensions will be recognized in pension expense as follows:

<b>Year Ended June 30</b>	<b>Amount</b>
2018	\$ 1,139
2019	1,139
2020	1,139
2021	1,139
2022	1,139
Thereafter	262

**TOWN OF RUTHERFORDTON, NORTH CAROLINA**

**NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2017**

\$5,492 paid as benefits came due and \$356 of administrative expenses subsequent to the measurement date are reported as deferred outflows of resources.

*Sensitivity of the Town's Total Pension Liability to Changes in the Discount Rate.* The following presents the Town's total pension liability calculated using the discount rate of 3.86 percent, as well as the Town's total pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (2.86 percent) or 1-percentage-point higher (4.86 percent) than the current rate:

	<b>1% Decrease 2.86%</b>	<b>Discount Rate 3.86%</b>	<b>1% Increase 4.86%</b>
Total pension liability	<u>\$ 302,284</u>	<u>\$ 276,871</u>	<u>\$ 254,035</u>

**Schedules of Changes in Total Pension Liability  
Law Enforcement Officer's Special Separation Allowance**

	<u>2017</u>
Beginning balance	\$ 268,039
Service cost	17,539
Interest on the total pension liability	9,373
Changes of assumptions and other inputs	(7,096)
Benefit payments	<u>(10,984)</u>
Ending balance of the total pension liability	<u>\$ 276,871</u>

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

The actuarial assumptions used in the December 31, 2015 valuation were based on the results of an actuarial experience study for the period January 1, 2010 through December 31, 2014.

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### **Supplemental Retirement Income Plan**

*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 all employees of 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. The Town voluntarily contributes 2.5% of each non-law enforcement employees' salary. All amounts contributed are vested immediately. Also, all employees may make voluntary contributions to the plan. Contributions for the year ended June 30, 2017 were \$96,123, which consisted of \$53,763 from the Town, \$35,284 from the non-law enforcement employees and \$7,076 from the law enforcement officers. No amounts were forfeited.

### **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 the monthly contributions. Contributions are determined as a percentage of monthly payroll, based upon rates established annually by the State. Separate rates are set for employees not engaged in law enforcement and for law enforcement officers. The Town considers these contributions to be immaterial.

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### Deferred Outflows and Inflows of Resources

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

Contributions to the pension plan in the current fiscal year - LGERS	\$ 136,129
Differences between expected and actual experience - LGERS	11,576
Change of assumptions - LGERS	42,198
Net difference between projected and actual earnings on pension plan investment - LGERS	340,633
Changes in proportion and differences between Town contributions and proportionate share of contributions - LGERS	1,495
Town benefit payments and plan administrative expense made subsequent to the measurement date- LEOSSA	5,848
Total	<u><u>\$ 537,879</u></u>

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

	<b>Statement of Net Position</b>	<b>General Fund Balance Sheet</b>
Property taxes receivable	\$ -	\$ 105,599
Prepaid taxes	176	176
Differences between expected and actual experience - LGERS	21,589	-
Changes in proportion and differences between Town contributions and proportionate share of contributions - LGERS	35,601	-
Change of assumptions - LEOSSA	5,957	-
Total	<u><u>\$ 63,323</u></u>	<u><u>\$ 105,775</u></u>

### Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damages to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town manages these risks through an Insurance Program in place with U.S. Specialty Insurance Company that has a specialized Municipality Program. Through this program, the Town obtains general liability and auto liability coverage of \$1,000,000 per occurrence; property coverage up to the total insurance values of the property policy. The workers compensation coverage up to the statutory limits of North Carolina, is provided by Bitco Insurance Company. The Town provides health insurance for employees. The current plan is the North Carolina State Health plan through Blue Cross Blue Shield.

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the last three fiscal years. The Town does carry a blanket limit of \$1,000,000 for flood insurance and a blanket \$1,000,000 limit for Earthquake Insurance.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more of the Town's funds at any given time are performance bonded through a commercial surety bond. The finance officer is bonded for \$50,000. The tax collector is bonded for \$15,000. The remaining employees that have access to funds are bonded under a blanket employee dishonesty bond for \$25,000.

### Long-Term Obligations

#### Capital Leases

The Town has entered into agreement to lease certain equipment. The lease agreement qualifies as a capital lease for accounting purposes and, therefore, has been recorded at the present value of the future minimum lease payments as of the date of its inception.

The agreement was executed on October 16, 2015 to lease several vehicles and motorized equipment and requires 10 semi-annual payments of \$45,088. Title passes to the Town at the end of the lease term.

Classes of Property	Cost	Accumulated Depreciation	Net Book Value
Vehicles and motorized equipment	\$ 426,148	\$ 58,549	\$ 367,599

The future minimum lease obligations and the net present value of these minimum lease payments as of June 30, 2017 were as follows:

Year Ending June 30	Amount
2018	\$ 90,177
2019	90,177
2020	90,177
2021	37,574
Total minimum lease payments	308,105
Less: amount representing interest	(9,315)
Present value of the minimum lease payments	\$ 298,790



# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### Installment Purchase

On September 12, 2012, the Town executed an installment purchase agreement in the amount of \$509,981 for the purchase of a fire truck. This agreement bears interest at 2.08% and calls for monthly principal and interest payments of \$4,711 beginning in October 2012 through September 2022.

Annual debt service payments of the installment purchase as of June 30, 2017, including \$15,860 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 51,173	\$ 5,357
2019	52,247	4,283
2020	53,344	3,185
2021	54,465	2,065
2022	55,608	921
2023	14,083	49
Total	<u>\$ 280,920</u>	<u>\$ 15,860</u>

### Business-Type Activities

#### Installment Purchases

On June 12, 2006, the Town executed a promissory note in the amount of \$591,952 with the State of North Carolina for a loan from the North Carolina Water Pollution Control Revolving Fund to finance the retrofit of the wastewater treatment plant. This note bears interest at 2.195% and calls for semi-annual payments of interest and annual payments of principal in May of each year beginning in May 2009 through May 2026.

Annual debt service payments of the installment purchase as of June 30, 2017, including \$30,090 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2018	\$ 31,155	\$ 6,155
2019	31,155	5,471
2020	31,155	4,787
2021	31,155	4,103
2022	31,155	3,419
2023-2026	<u>124,623</u>	<u>6,155</u>
Total	<u>\$ 280,398</u>	<u>\$ 30,090</u>

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### Net investment in Capital Assets

Net investment in capital assets as of June 30, 2017 is computed as follows:

	<b>Governmental Activities</b>	<b>Business-Type Activities</b>
Capital assets, net of accumulated depreciation	\$ 4,394,931	\$ 6,784,344
Unspent debt proceeds	5,044	-
Long-term debt	(579,710)	(280,398)
Net Investment in Capital Assets	\$ 3,820,265	\$ 6,503,946

A summary of changes in long-term debt are as follows:

	<b>Beginning Balance</b>	<b>Additions</b>	<b>Reductions</b>	<b>Ending Balance</b>	<b>Current Portion of Balance</b>
<b>Governmental Activities:</b>					
Note payable	\$ 326,988	\$ -	\$ (46,068)	\$ 280,920	\$ 51,173
Capital lease	383,261	-	(84,471)	298,790	85,806
Total pension liability - LEOSSA	261,734	15,137	-	276,871	-
Net pension liability - LGERS	133,125	470,395	-	603,520	-
Compensated absences	131,426	79,284	(55,067)	155,643	15,564
Total	\$ 1,236,534	\$ 564,816	\$ (185,606)	\$ 1,615,744	\$ 152,543
<b>Business-Type Activities:</b>					
Note payable - water lines	\$ 311,554	\$ -	\$ (31,156)	\$ 280,398	\$ 31,155
Net pension liability - LGERS	2,995	9,600	-	12,595	-
Compensated absences	703	1,300	(380)	1,623	162
Total	\$ 315,252	\$ 10,900	\$ (31,536)	\$ 294,616	\$ 31,317

Compensated absences generally have been liquidated in the general fund and are accounted for on a LIFO basis, assuming that employees are taking leave time as it is earned.

At June 30, 2017, the Town had a legal debt margin of \$26,006,999.

### Fund Balance

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

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

Total fund balance - General Fund	\$	2,604,912
Less:		
Stabilization by State statute		(467,163)
Prepays		<u>(22,384)</u>
Total available fund balance	\$	<u>2,115,365</u>

### **Broad River Water Authority**

The Broad River Water Authority has been organized pursuant to the provisions of Chapter 162A, Article 1, of the North Carolina Statutes. The Water Authority was organized to purchase and management a water system to provide water services to the citizens of Rutherford County, Town of Rutherfordton, Town of Spindale and Town of Ruth. The political subdivisions of the Authority are Rutherford County, Town of Rutherfordton, Town of Spindale and Town of Ruth. Each political subdivision shall be allowed to appoint two members of the Authority. The Town, according to 162A-16 is authorized to make contributions or advances to an authority to provide for preliminary expenses of such Authority. The Town of Rutherfordton joined the Broad River Water Authority on August 3, 1999.

### **Federal and State Assisted Programs**

The Town has received proceeds from State and federal 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.

### **Claims, Judgments and Contingent Liabilities**

The Town is periodically involved in legal actions and claims arising in the normal course of operations. At June 30, 2017, the Town is not involved in any legal action that would have a material effect upon the financial position of the Town.

### **Other Matters**

The Rutherfordton Golf Club, Inc. is a golf course located on property owned by the Town. The property is leased to the golf club for \$1 annually. The golf club is governed by a board which is appointed and serves independently of the Town. The Town, in conjunction with the recreation trust fund, paid expenses for the golf club of \$24,999 and \$21,199 in 2017 and 2016, respectively.

### **Interlocal Agreement with Polk County**

On September 8, 2014, the Town entered into an interlocal agreement with Polk County to allow the Town to provide wastewater collection, treatment and transport to an equestrian center being developed in Polk County. The system was completed and placed in service during the fiscal year 2015.

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## NOTES TO FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2017

### **Change in Accounting Principles/Restatement**

The Town implemented Governmental Accounting Standards Board (GASB) No. Statement 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68*, and *Amendments to Certain Provisions of GASB Statements 67 and 68*, in this fiscal year ending June 30, 2017. The implementation of the statement required the Town to record beginning total pension liability and the effects on net position of benefit payments and administrative expenses paid by the Town to the Law Enforcement Officers' Special Separation Allowance during the measurement period (fiscal year ending December 31, 2016). As a result, net position for the governmental activities decreased \$4,679.

**REQUIRED SUPPLEMENTAL INFORMATION**

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**TOWN OF RUTHERFORDTON, NORTH CAROLINA****LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE  
REQUIRED SUPPLEMENTARY INFORMATION  
SCHEDULE OF CHANGES IN TOTAL PENSION LIABILITY**

	<u>2017</u>
Beginning balance	\$ 268,039
Service cost	17,539
Interest on the total pension liability	9,373
Changes of assumptions or other inputs	(7,096)
Benefit payments	<u>(10,984)</u>
Ending balance of the total pension liability	<u>\$ 276,871</u>

The amounts presented for each fiscal year were determined as of the prior fiscal year ending December 31.

**TOWN OF RUTHERFORDTON, NORTH CAROLINA****LAW ENFORCEMENT OFFICERS' SPECIAL SEPARATION ALLOWANCE****REQUIRED SUPPLEMENTARY INFORMATION****SCHEDULE OF TOTAL PENSION LIABILITY AS A PERCENTAGE OF COVERED PAYROLL**

	<u>2017</u>
Total pension liability	\$ 276,871
Covered payroll	623,041
Total pension liability as a percentage of covered payroll	44.44%

**Notes to the Schedules:**

The Town of Rutherfordton has no assets accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement 73 to pay related benefits.



## TOWN OF RUTHERFORDTON, NORTH CAROLINA

TOWN OF RUTHERFORDTON'S PROPORTIONATE SHARE  
OF NET PENSION LIABILITY (ASSET)  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST FOUR FISCAL YEARS\*Local Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Town of Rutherfordton's proportion of the net pension liability (asset) (%)	0.02903%	0.03033%	0.02908%	0.03190%
Town of Rutherfordton's proportion of the net pension liability (asset) (\$)	\$ 616,115	\$ 136,120	\$ (171,498)	\$ 384,517
Town of Rutherfordton's covered-employee payroll	\$ 1,666,634	\$ 1,606,643	\$ 1,505,579	\$ 1,605,467
Town of Rutherfordton's proportionate share of the net pension liability (asset) as a percentage of its covered-employee payroll	36.97%	8.47%	-11.39%	23.95%
Plan fiduciary net position as a percentage of the total pension liability**	91.47%	98.09%	102.64%	94.35%

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

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

## TOWN OF RUTHERFORDTON, NORTH CAROLINA

TOWN OF RUTHERFORDTON'S CONTRIBUTIONS  
REQUIRED SUPPLEMENTARY INFORMATION  
LAST FOUR FISCAL YEARSLocal Government Employees' Retirement System

	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Contractually required contribution	\$ 136,129	\$ 115,344	\$ 115,772	\$ 107,555
Contributions in relation to the contractually required contribution	<u>136,129</u>	<u>115,344</u>	<u>115,772</u>	<u>107,555</u>
Contribution deficiency (excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Town's covered-employee payroll	\$ 1,792,807	\$ 1,666,634	\$ 1,606,643	\$ 1,505,579
Contributions as a percentage of covered-employee payroll	7.59%	6.92%	7.21%	7.14%

**INDIVIDUAL FUND SCHEDULES**

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**TOWN OF RUTHERFORDTON, NORTH CAROLINA**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GENERAL FUND BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>		<b>Variance Over/(Under)</b>
	<u>Budget</u>	<u>Actual</u>	
<b>Revenues:</b>			
<b>Ad Valorem Taxes:</b>			
Taxes - General Fund		\$ 1,894,276	
Penalties, interest, and advertising		17,784	
Total	<u>\$ 1,928,906</u>	<u>1,912,060</u>	<u>\$ (16,846)</u>
<b>Unrestricted Intergovernmental Revenues:</b>			
Local option sales tax		829,915	
ABC profit distribution		37,439	
Utility sales tax		414,215	
Beer and wine tax		19,398	
Total	<u>1,155,546</u>	<u>1,300,967</u>	<u>145,421</u>
<b>Restricted Intergovernmental Revenues:</b>			
Special assessments - downtown revitalization		12,223	
State grants		94,013	
Powell bill allocation		135,878	
State distribution for drug enforcement		604	
Solid waste tax disbursement		2,806	
SAFER Grant		39,119	
ABC funds for law enforcement		10,182	
Total	<u>859,392</u>	<u>294,825</u>	<u>(564,567)</u>
<b>Sales and Services:</b>			
Fire district revenue		300,795	
Cable TV franchise		6,991	
Solid waste user fee		30,663	
Recycling & refuse		135	
Crestview park rental		2,055	
Clubhouse revenue		15,266	
Federal building lease		7,150	
Police reports		97	
Other fees		59,158	
Total	<u>369,362</u>	<u>422,310</u>	<u>52,948</u>
<b>Investment Earnings</b>	<u>2,100</u>	<u>9,976</u>	<u>7,876</u>

**TOWN OF RUTHERFORDTON, NORTH CAROLINA**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GENERAL FUND BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>		<b>Variance Over/(Under)</b>
	<u>Budget</u>	<u>Actual</u>	
<b>Miscellaneous:</b>			
Other		61,103	
Total	141,372	61,103	(80,269)
Total revenues	4,456,678	4,001,241	(455,437)
<b>Expenditures:</b>			
<b>General Government:</b>			
<b>Governing Body:</b>			
Salaries and employee benefits		11,420	
Operating expenditures		51,736	
Total	63,200	63,156	44
<b>Administration:</b>			
Salaries and employee benefits		239,633	
Operating expenditures		226,227	
Total	467,936	465,860	2,076
<b>Main Street Programs and Zoning:</b>			
Operating expenditures		128,463	
Capital outlay		150,845	
Total	286,857	279,308	7,549
Total general government	817,993	808,324	9,669
<b>Public Safety:</b>			
<b>Police:</b>			
Salaries and employee benefits		865,442	
Operating expenditures		110,634	
Capital outlay		106,717	
Total	1,118,145	1,082,793	35,352
<b>Fire:</b>			
Salaries and employee benefits		522,488	
Operating expenditures		137,537	
Capital outlay		61,479	
Total	989,925	721,504	268,421
Total public safety	2,108,070	1,804,297	303,773

**TOWN OF RUTHERFORDTON, NORTH CAROLINA**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GENERAL FUND BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>		<b>Variance Over/(Under)</b>
	<u>Budget</u>	<u>Actual</u>	
<b>Transportation and Environmental Protection:</b>			
Salaries and employee benefits		641,683	
Operating expenditures		253,836	
Capital outlay		<u>102,957</u>	
Total	<u>1,036,894</u>	<u>998,476</u>	<u>38,418</u>
<b>Powell Bill:</b>			
Operating expenditures			
Capital outlay		<u>170,848</u>	
Total	<u>188,394</u>	<u>170,848</u>	<u>17,546</u>
Total transportation and environmental protection	<u>1,225,288</u>	<u>1,169,324</u>	<u>55,964</u>
<b>Cultural and Recreational:</b>			
<b>Library:</b>			
Salaries and employee benefits		147,513	
Operating expenditures		<u>28,914</u>	
Total	<u>182,599</u>	<u>176,427</u>	<u>6,172</u>
<b>Parks:</b>			
Operating expenditures		91,316	
Capital outlay		<u>23,191</u>	
Total	<u>114,750</u>	<u>114,507</u>	<u>243</u>
<b>CDBG:</b>			
Operating expenditures	<u>341,000</u>	-	<u>341,000</u>
<b>Trails and Greenways:</b>			
Operating expenditures		<u>81,746</u>	
Total	<u>165,979</u>	<u>81,746</u>	<u>84,233</u>
Total cultural and recreational:	<u>804,328</u>	<u>372,680</u>	<u>431,648</u>
<b>Debt Service:</b>			
Principal retirement		130,539	
Interest		<u>16,168</u>	
Total debt service	<u>146,707</u>	<u>146,707</u>	-

**TOWN OF RUTHERFORDTON, NORTH CAROLINA**

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE - GENERAL FUND BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2017**

	<u>2017</u>		
	<u>Budget</u>	<u>Actual</u>	<u>Variance Over/(Under)</u>
Total expenditures	<u>5,102,386</u>	<u>4,301,332</u>	<u>801,054</u>
Revenues over (under) expenditures	<u>(645,708)</u>	<u>(300,091)</u>	<u>345,617</u>
<b>Other Financing Sources (Uses):</b>			
Sale of capital assets	25,000	23,517	(1,483)
Transfers from other funds	39,806	-	(39,806)
Transfers to other funds	(39,806)	-	39,806
Appropriated fund balance	<u>620,708</u>	<u>-</u>	<u>(620,708)</u>
Total other financing sources (uses)	<u>645,708</u>	<u>23,517</u>	<u>(622,191)</u>
Net changes in fund balance	<u>\$ -</u>	<u>(276,574)</u>	<u>\$ (276,574)</u>
<b>Fund Balance:</b>			
Beginning of year - July 1		<u>2,881,486</u>	
End of year - June 30		<u>\$ 2,604,912</u>	



## TOWN OF RUTHERFORDTON, NORTH CAROLINA

SCHEDULE OF REVENUES AND EXPENDITURES  
 BUDGET AND ACTUAL (NON-GAAP)  
 SEWER FUND  
 FOR THE YEAR ENDED JUNE 30, 2017

	2017		
	Budget	Actual	Variance Over/Under
<b>Revenues:</b>			
Operating revenues:			
Fees for service	\$ 839,841	\$ 905,158	\$ 65,317
Non-operating revenues:			
Other taxes and fees	250	-	(250)
Sale of capital assets	1,499	-	(1,499)
Capital contributions	96,890	83,032	(13,858)
Interest income	425	1,607	1,182
Total revenues	<u>938,905</u>	<u>989,797</u>	<u>50,892</u>
<b>Expenditures:</b>			
<b>Operations:</b>			
Salaries and employee benefits	80,613	66,651	13,962
Other operating expenditures	631,489	650,594	(19,105)
Capital outlay	485,392	308,961	176,431
Total operating expenditures	<u>1,197,494</u>	<u>1,026,206</u>	<u>171,288</u>
<b>Debt Service:</b>			
Principal retirement	31,156	31,156	-
Interest paid	17,044	6,838	10,206
Total debt service	<u>48,200</u>	<u>37,994</u>	<u>10,206</u>
Total expenditures	<u>1,245,694</u>	<u>1,064,200</u>	<u>181,494</u>
Revenue over (under) expenditures	<u>(306,789)</u>	<u>(74,403)</u>	<u>232,386</u>
<b>Other Financing Sources (Uses):</b>			
Debt issuance	176,190	-	(176,190)
Appropriated net position	130,599	-	(130,599)
Total other financing sources (uses)	<u>306,789</u>	<u>-</u>	<u>(306,789)</u>
Revenues and other financing sources over (under) expenditures and other financing uses	<u>\$ -</u>	<u>(74,403)</u>	<u>\$ (74,403)</u>
<b>Reconciliation of Modified Accrual Basis to Full Accrual Basis:</b>			
Reconciling items:			
Capital outlay, capitalized		308,961	
Principal paid on long-term debt		31,156	
Change in accrued vacation		920	
Increase in deferred outflows of resources - pensions		8,293	
Decrease in deferred inflows of resources - pensions		765	
Increase in net pension liability		(9,600)	
Depreciation		<u>(315,798)</u>	
Total reconciling items		<u>24,697</u>	
Change in net position		<u>\$ (49,706)</u>	

## TOWN OF RUTHERFORDTON, NORTH CAROLINA

SCHEDULE OF AD VALOREM TAXES RECEIVABLE - GENERAL FUND  
JUNE 30, 2017

Fiscal Year	Uncollected Balance July 1, 2016	Additions	Collections and Credits	Uncollected Balance June 30, 2017
2016-2017	\$ -	\$ 1,884,333	\$ 1,844,870	\$ 39,463
2015-2016	44,975	59,599	80,956	23,618
2014-2015	40,015	-	21,477	18,538
2013-2014	27,716	-	6,960	20,756
2012-2013	16,028	-	3,310	12,718
2011-2012	12,467	-	2,196	10,271
2010-2011	7,951	-	1,217	6,734
2009-2010	6,678	-	1,066	5,612
2008-2009	4,982	-	416	4,566
2007-2008	4,858	-	83	4,775
2006-2007	4,692	-	4,692	-
Total	<u>\$ 170,362</u>	<u>\$ 1,943,932</u>	<u>\$ 1,967,243</u>	147,051
Less: allowance for uncollectible accounts: General Fund				<u>(41,452)</u>
Ad valorem taxes receivable net: General Fund				<u>\$ 105,599</u>
<b>Reconciliation with Revenues:</b>				
Ad valorem taxes - General Fund				\$ 1,894,276
Reconciling items:				
Discoveries and adjustments				99,925
Releases and discounts				(51,322)
Other miscellaneous adjustments				19,672
Amounts written off per Statute of Limitations				<u>4,692</u>
Total collections and credits				<u>\$ 1,967,243</u>

\* In fiscal year 2015, the County transitioned software and experienced difficulty in providing accurate ending tax receivable balances. During fiscal year 2016, the balances were verified and corrected. The additions in these prior years represents the corrections to the balances forward.

## TOWN OF RUTHERFORDTON, NORTH CAROLINA

ANALYSIS OF CURRENT TAX LEVY  
FOR THE YEAR ENDED JUNE 30, 2017

	Town-Wide			Total Levy	
	Property Valuation	Rate	Amount of Levy	Property Excluding Registered Motor Vehicles	Registered Motor Vehicles
<b>Original Levy:</b>					
Property taxed at current year's rate	\$ 323,761,905	0.567	\$ 1,835,730	\$ 1,676,852	\$ 158,878
<b>Discoveries:</b>					
Current year taxes	17,623,457	0.567	99,925	99,925	-
<b>Abatements</b>	<u>(9,051,499)</u>	0.567	<u>(51,322)</u>	<u>(51,322)</u>	<u>-</u>
Total property valuation	<u>\$ 332,333,862</u>				
<b>Net Levy</b>			1,884,333	1,725,455	158,878
Uncollected taxes at June 30, 2017			<u>(39,463)</u>	<u>(39,463)</u>	<u>-</u>
<b>Current Year's Taxes Collected</b>			<u>\$ 1,844,870</u>	<u>\$ 1,685,992</u>	<u>\$ 158,878</u>
<b>Current Levy Collection Percentage</b>			<u>97.69%</u>	<u>97.71%</u>	<u>100.00%</u>

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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  
Town Council  
Town of Rutherfordton  
Rutherfordton, North Carolina

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable of the 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, the aggregate discretely presented component units, and each major fund of the Town of Rutherfordton, North Carolina, as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated October 30, 2017. Our report includes a reference to other auditors who audited the financial statements of the Town of Rutherfordton ABC Board, Rutherfordton Town Revitalization, Inc., and Norris Library Foundation, Inc., as described in our report on the Town of Rutherfordton's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported separately by those auditors. The financial statements of the Town of Rutherfordton ABC Board, Rutherfordton Town Revitalization, Inc., and Norris Library Foundation, Inc. were not audited in accordance with *Government Auditing Standards*.

### **Internal Control Over Financial Reporting**

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

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

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800-948-0585 ♦ [www.martinstarnes.com](http://www.martinstarnes.com)

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses as items 2017-001, 2017-002, and 2017-003 that we consider to be material weaknesses.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Town of Rutherfordton's financial statements are free of 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 and Responses as items 2017-002 and 2017-003.

### **Town of Rutherfordton's Responses to Findings**

The Town of Rutherfordton's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The Town'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 *Government Auditing Standards* in considering the Town's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Martin Starnes & Associates, CPAs, P.A.*

Martin Starnes & Associates, CPAs, P.A.  
Hickory, North Carolina  
October 30, 2017

**TOWN OF RUTHERFORDTON, NORTH CAROLINA**

**SCHEDULE OF FINDINGS AND RESPONSES  
FOR THE YEAR ENDED JUNE 30, 2017**

**1. Summary of Auditor's Results**

**Financial Statements**

Type of report the auditor issued on whether the financial statements were prepared in accordance to GAAP:

Unmodified

Internal control over financial reporting:

- Material weaknesses identified?                      X   Yes                    \_\_\_\_\_ No
- Significant deficiencies identified?                    \_\_\_\_\_ Yes                      X   None reported

Non-compliance material to financial statements noted?

  X   Yes                    \_\_\_\_\_ No

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2017

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

#### Material Weakness

##### Finding 2017-001

**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 office, there are inherent limitations to the segregation of duties among Town personnel relating to cash receipts and access to the general ledger. The same employee that collects cash also performs the duties of posting and reconciling the receipts and preparing the receipts for deposit. Furthermore, the employee that performs the bank statement reconciliation occasionally performs the cash collection and deposit preparation duties. Due to this limitation, access to the general ledger is not ideally restricted. There are also inherent limitations regarding journal entries, the preparation, posting, and approval for journal entries for the majority of the year under audit were being completed by the same individual, without a timely review of the entries being conducted.

**Effect:** Errors in financial reporting could occur and not be detected.

**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 should provide some of these controls.

**Views of Responsible Officials and Planned Corrective Action:** Management is aware of the weakness, but due to the cost benefit analysis, hiring additional personnel does not appear feasible.



# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2017

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

#### Material Weakness/Non-Compliance

##### Finding 2017-002

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

**Condition:** The Town did not properly review or timely identify errors in reporting of payroll data as it relates to retirement contributions and pay rates.

**Effect:** Non-compliance with laws and regulations, over and/or under payment of employee wages and benefits and penalties and fees due to late submissions; Violation of North Carolina General Statute 128-30 (g).

**Cause:** Due to turnover in the Finance Department and change of payroll systems, the Town did not have adequate safeguards in place to monitor payroll processes.

**Recommendation:** Adequate controls over all payroll functions should be put in place and monitored. Completion of monthly/annual State and federal reporting requirements should be monitored by someone other than the employee responsible for submitting the reports.

**Views of Responsible Officials and Planned Corrective Action:** Management concurs with the finding. Management will put procedures in place to assure that all State and federal reporting requirements are submitted in a timely manner. Due to the implementation of new software, employee error, and employee turnover, some federal and state reporting deadlines were missed. Procedures are now in place that provides the Finance Officer with documentation that these reports have been submitted. At least two employees in the Finance Office are now involved in submitting annual State and federal reports. As a result of new payroll software being installed in January of 2016, new procedures are also in place that provide a better segregation of duties for all changes to employees' rates of pay and benefits.

# TOWN OF RUTHERFORDTON, NORTH CAROLINA

## SCHEDULE OF FINDINGS AND RESPONSES FOR THE YEAR ENDED JUNE 30, 2017

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

#### Material Weakness/Non-Compliance

##### Finding 2017-003

**Criteria:** Management should have a system in place to reduce the likelihood of non-compliance with all applicable laws, rules and regulations.

**Condition:** Local governments in North Carolina are prohibited from holding certain types of securities.

**Effect:** The Town is in violation of G.S. 159-30.

**Cause:** Securities were donated to the Town with specified terms that the investment not be sold. The terms did not comply with State statutes.

**Identification of a Repeat Finding:** This is a repeat finding from the immediate previous audit, 2016-003.

**Recommendation:** The Town should make an effort to contact the contributors of the securities and have the terms changed to comply with G.S. 159-30

**Views of Responsible Officials and Planned Corrective Action:** The Town agrees with this finding but will abide by the terms of the agreement if the contributors cannot be contacted.



# Rutherfordton

A MINTED ORIGINAL

## TOWN OF RUTHERFORDTON, NORTH CAROLINA

FOR THE YEAR ENDED JUNE 30, 2017

### Material Weakness

#### Finding 2017-001

**Name of Contact Person:** Doug Barrick

**Corrective Action:** Management is aware of the weakness but, due to the cost benefit analysis, hiring additional personnel does not appear feasible. Management does its best with segregation of duties with the small staff on hand.

**Proposed Completion Date:** Immediately.

### Material Weakness/Non-Compliance

#### Finding 2017-002

**Name of Contact Person:** Doug Barrick

**Corrective Action:** Management will put procedures in place to assure that all State and federal reporting requirements are submitted in a timely manner. Due to the implementation of new software, employee error, and employee turnover, some federal and state reporting deadlines were missed. Procedures are now in place that provides the Finance Officer with documentation that these reports have been submitted. At least two employees in the Finance Office are now involved in submitting annual State and federal reports. As a result of new payroll software being installed in January of 2016, new procedures are also in place that provide a better segregation of duties for all changes to employees' rates of pay and benefits.

**Proposed Completion Date:** Immediately.

### Material Weakness/Non-Compliance

#### Finding 2017-003

**Name of Contact Person:** Doug Barrick

**Corrective Action:** The Town agrees with this finding but will abide by the terms of the agreement if the contributors cannot be contacted.

**Proposed Completion Date:** Immediately.

**TOWN OF RUTHERFORDTON, NORTH CAROLINA**

**SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2017**

**Significant Deficiency**

**Finding 2016-001**

**Status:** Corrected in the current year.

**Significant Deficiency**

**Finding 2016-002**

**Status:** Corrected in the current year.

**Material Weakness**

**Finding 2016-003**

**Status:** Repeated in the current year as finding 2017-003.