

Town of Haw River
Financial Statements
June 30, 2013

**Town of Haw River
North Carolina**

June 30, 2013

Town Council Members

Buddy Boggs, Mayor
Kelly Allen, Mayor Pro-Tem
Jeff Fogleman
H. Lee Lovette
Ashley Warren

Administrative and Financial Staff

Jeffrey Earp, Town Manager/Finance Officer
Melanie Hamilton, Assistant Finance Officer

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Financial Section

Winston, Williams, Creech, Evans, & Company, LLP

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America Counts on CPAs

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Town Council
Town of Haw River, North Carolina

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Haw River, North Carolina as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Town of Haw River, North Carolina as of June 30, 2013, and respective changes in financial position and cash flows, where appropriate, thereof the respective budgetary comparison for the General

Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis, the Law Enforcement Officers' Special Separation Allowance's and the Other Postemployment Benefits' Schedules of Funding and Progress and Schedules of Employer Contributions, on pages 4-9 and 50-54, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements of the Town of Haw River, North Carolina. The combining and individual fund statements, budgetary schedules and other schedules are presented for purpose of additional analysis and are not a required part of the basic financial statements.

The combining and individual fund statements, budgetary schedules and other schedules are the responsibility of management and were derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has be subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the combining and individual fund statements, 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 18, 2013 on our consideration of the Town of Haw River's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

Winston, Williams, Creech, Evans & Company, LLP

Winston, Williams, Creech, Evans & Company, LLP
Certified Public Accountants
Oxford, North Carolina
October 18, 2013

Management's Discussion and Analysis

Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013

As management of the Town of Haw River, North Carolina (the "Town"), we offer readers of the Town's financial statements this narrative overview and analysis of the financial activities of the Town of Haw River for the fiscal year ended June 30, 2013. We encourage readers to read the information presented here in conjunction with additional information that we have furnished in the Town's financial statements, which follow this narrative.

Financial Highlights

- The assets and deferred outflows of resources of the Town of Haw River *exceeded* its liabilities and deferred inflows of resources at the close of the fiscal year by \$6,782,325 (*net position*).
- The government's total net position *increased* by \$210,049, due to *increases* in both the governmental activities net position and the business-type activities net position.
- As of the close of the current fiscal year, the Town of Haw River's governmental funds reported combined ending fund balances of \$1,275,402 with a net change of \$23,748 in fund balance. Approximately 50.85 percent of this total amount, or \$648,576, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$626,826, or 32.92 percent of total general fund expenditures for the fiscal year.
- The Town of Haw River's total liabilities increased by \$63,367 (3.93%) during the current fiscal year. The key factor in this increase was bonds issued in the water sewer fund.

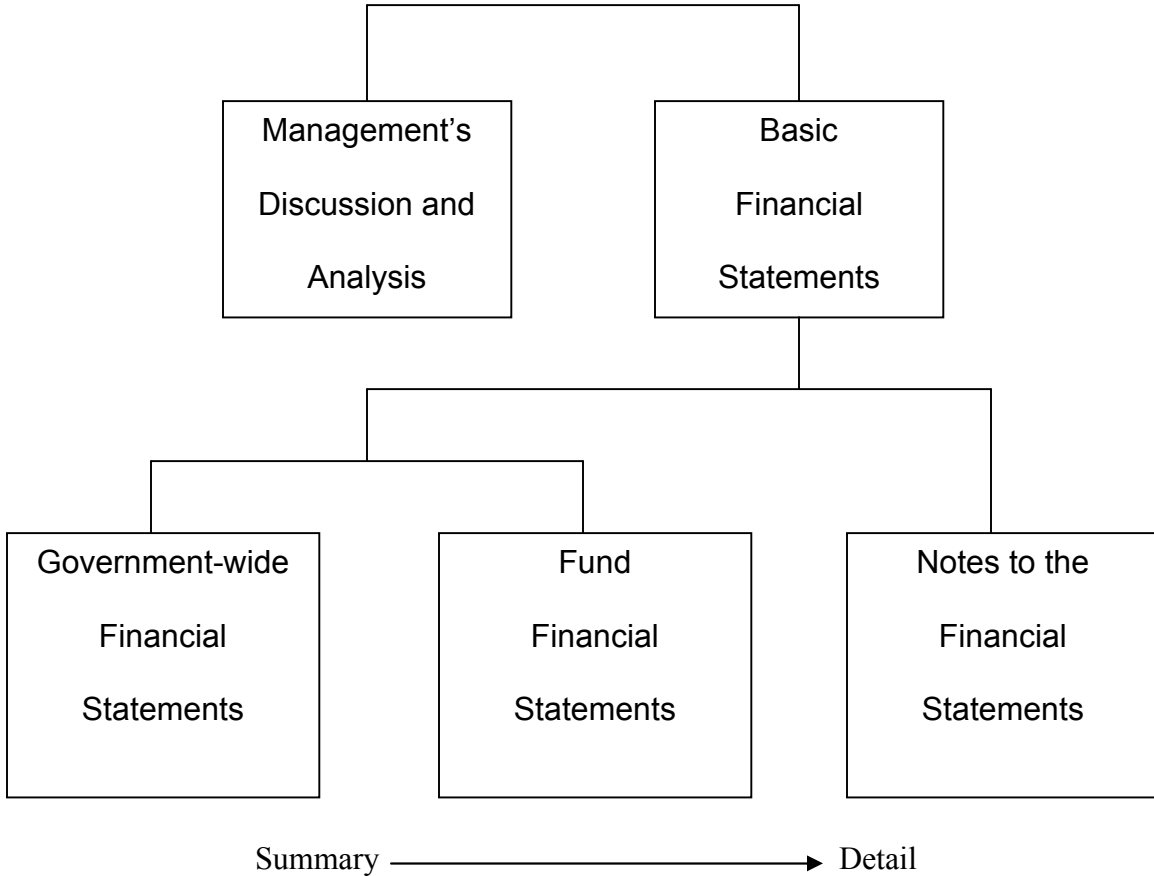
Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to Town'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 Haw River.

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

Required Components of Annual Financial Report

Figure 1



Basic Financial Statements

The first two statements (Exhibits 1 and 2) in the basic financial statements are the **Government-wide Financial Statements**. They provide both short and long-term information about the Town's financial status.

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

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

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

Government-wide Financial Statements

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

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

The government-wide statements are divided into two categories: 1) governmental activities and 2) business-type activities. The governmental activities include most of the Town's basic services such as public safety, parks and recreation, and general administration. Property taxes and state and federal grant funds finance most of these activities. The business-type activities are those that the Town charges customers to provide. These include the water and sewer and stormwater services offered by the Town.

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

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, 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 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* that 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.

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

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 town council 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 town council; 2) the final budget as amended by the town council; 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.

Proprietary Funds – Town of Haw River has one kind of proprietary fund. *Enterprise Funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. Town of Haw River uses enterprise funds to account for its water and sewer activity and its stormwater operations. These funds are the same as those functions shown in the business-type activities in the Statement of Net Position and the Statement of Activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements begin on page 32 of this report.

Other Information – In addition to the basic financial statements and accompanying notes, this report includes certain supplementary information concerning the Town of Haw River's progress in funding its obligation to provide pension benefits to its law enforcement employees. Additionally, this report includes certain supplementary information concerning the Town of Haw River's progress in funding its obligation to provide retirement healthcare benefits to its employees. Required supplementary information can be found beginning on page 51 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.

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

Government-Wide Financial Analysis

Town of Haw River's Net Position

Figure 2

	Governmental Activities		Business-Type Activities		Total	
	2013	2012	2013	2012	2013	2012
Current and other assets	\$ 1,356,572	\$ 1,345,113	\$ 890,800	\$ 658,499	\$ 2,247,372	\$ 2,003,612
Capital assets	1,654,885	1,646,773	4,491,443	4,595,732	6,146,328	6,242,505
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	3,011,457	2,991,886	5,382,243	5,254,229	8,393,700	8,246,115
Long-term liabilities outstanding	607,877	679,361	829,471	820,967	1,437,348	1,500,328
Other liabilities	24,851	50,270	148,274	123,242	173,125	173,512
Deferred inflows of resources	902	-	-	-	902	-
Total liabilities and deferred inflows of resources	633,630	729,631	977,745	944,209	1,611,375	1,673,840
Net position:						
Net investment in capital assets related debt	1,314,635	1,247,348	3,717,443	3,821,730	5,032,078	5,069,078
Restricted	648,576	695,497	-	-	648,576	695,497
Unrestricted	414,616	319,410	687,055	488,291	1,101,671	807,701
Total net position	<u>\$ 2,377,827</u>	<u>\$ 2,262,255</u>	<u>\$ 4,404,498</u>	<u>\$ 4,310,021</u>	<u>\$ 6,782,325</u>	<u>\$ 6,572,276</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 Haw River exceeded liabilities by \$6,782,325 as of June 30, 2013. The Town's net position increased by \$210,049 for the fiscal year ended June 30, 2013. However, the largest portion (74.19%) reflects the Town's net investment in capital assets (e.g. land, buildings, machinery, and equipment). The Town of Haw River uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Town of Haw River's net investment in capital assets is reported net of the outstanding related debt, the resources needed to repay that debt must be provided by other sources, since the capital assets cannot be used to liquidate these liabilities. An additional portion of the Town's net position, \$648,576, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,101,671 is unrestricted.

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

- Increased charges for services revenues in the Water and Sewer Fund of approximately \$84,252.

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

- Continued diligence in the collection of property taxes by maintaining a positive tax collection percentage of 95.25%, which is comparable to the statewide average of 96.40% for similar-sized municipalities.

**Town of Haw River's Changes in Net Position
Figure 3**

	Governmental		Business-type		Total	
	Activities		Activities			
	2013	2012	2013	2012	2013	2012
Revenues:						
Program revenues:						
Charges for services	\$ 379,258	\$ 119,386	\$ 1,765,206	\$ 1,681,220	\$ 2,144,464	\$ 1,800,606
Operating grants and contributions	72,849	349,778	-	-	72,849	349,778
Capital grants and contributions	25,730	516,703	25,264	435,708	50,994	952,411
General revenues:						
Property taxes	678,436	641,891	-	-	678,436	641,891
Other taxes	83,796	14,066	-	-	83,796	14,066
Grants and contributions not restricted to specific programs	674,494	681,605	-	-	674,494	681,605
Other	11,405	7,277	-	-	11,405	7,277
Investment earnings	1,878	2,877	25	311	1,878	3,188
Total revenues	1,927,846	2,333,583	1,790,495	2,117,239	3,718,341	4,450,822
Expenses:						
General government	359,805	331,398	-	-	359,805	331,398
Public safety	982,762	966,747	-	-	982,762	966,747
Transportation	211,757	294,010	-	-	211,757	294,010
Economic and physical development	11,805	247,591	-	-	11,805	247,591
Environmental protection	61,001	121,966	-	-	61,001	121,966
Culture and recreation	170,805	163,805	-	-	170,805	163,805
Interest on long-term debt	14,339	15,408	-	-	14,339	15,408
Water and sewer	-	-	1,683,459	1,460,891	1,683,459	1,460,891
Stormwater	-	-	12,558	6,524	12,558	6,524
Total expenses	1,812,274	2,140,925	1,696,018	1,467,415	3,508,292	3,608,340
Increase (decrease) in net position before transfers	115,572	192,658	94,477	649,824	210,049	842,482
Transfers	-	-	-	-	-	-
Increase (decrease) in net position	115,572	192,658	94,477	649,824	210,049	842,482
Net position, July 1	2,262,255	2,069,597	4,310,021	3,660,197	6,572,276	5,729,794
Net position, June 30	\$ 2,377,827	\$ 2,262,255	\$ 4,404,498	\$ 4,310,021	\$ 6,782,325	\$ 6,572,276

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

Governmental activities. Governmental activities increased the Town's net position by \$115,572, thereby accounting for 55.02% of the total increase in net position of the Town of Haw River. Key elements of this increase are as follows:

- Overall Ad Valorem Revenues increased by \$36,545.
- General Government expenses increased \$28,407.
- Environmental protection total expenses decreased \$19,636.
- The Town received \$508,622 in Community Development Block Grant funding in the previous year which decreased the Economic Development revenues and expenses for the current year.

Business-type activities: Business-type activities increased the Town's net position by \$94,477, accounting for 44.97% of the total increase in net position of the Town of Haw River. Key elements of this increase are as follows:

- Charges for services revenues increased by \$83,986.

Financial Analysis of the Town's Funds

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

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

The general fund is the chief operating fund of the Town of Haw River. At the end of the current fiscal year, Town of Haw River's fund balance available in the General Fund was \$626,826, while total fund balance reached \$1,275,402. The Town currently has an available fund balance of 32.92 percent of total General Fund expenditures, while total fund balance represents 66.98 percent of that same amount.

At June 30, 2013, the governmental funds of Town of Haw River reported a combined fund balance of \$1,275,402 with a net increase in fund balance of \$23,748. Included in this change in fund balance is an increase in fund balance in the General Fund.

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

Revenues were lower than budgeted amounts primarily due to a combination of lower than anticipated utilities franchise tax and sales and use tax as well as an unused budgeted

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

fund balance appropriation. Expenditures were lower than budgeted amounts due to management's efforts to reduce departmental spending in order to mitigate the effects of reduced revenues on the budget.

Proprietary Funds. The Town's proprietary funds provide the same type of information found in the government-wide statements but in more detail. Unrestricted net position of the Water and Sewer Fund at the end of the fiscal year amounted to \$622,357, and those for the Stormwater Fund amounted to \$64,698. Net position increased in the Water and Sewer Fund by \$84,292 and net position in the Stormwater Fund increased by \$10,186 in the current fiscal year. The change in net position of the Water and Sewer Fund is a result of infrastructure improvements that have significantly lowered the Town's loss percentage on water and sewer purchases. The change in net position of the Stormwater Fund is a result of operating revenues exceeding related expenses for the current operation of this program.

Capital Asset and Debt Administration

Capital assets. The Town of Haw River's investment in capital assets for its governmental and business-type activities as of June 30, 2013, totals \$6,146,328 (net of accumulated depreciation). These assets include buildings, roads and bridges, land, machinery and equipment, park facilities and vehicles.

Major capital asset transactions during the year include the following:

- Purchase of a Toro Lawn Mower for Cultural and Recreation dept totaling \$7,519.
- Sidewalk improvements made to the Town totaling \$54,282.
- Purchased recycling carts for the Town totaling \$44,019.
- Purchased playground equipment for the Town totaling \$9,200.
- Water and Sewer improvements and equipment totaling \$38,724.
- Water and Sewer purchased a truck totaling \$21,444.

**Town of Haw River's Capital Assets
(net of depreciation)
Figure 4**

	Governmental Activities		Business-type Activities		Total	
	2013	2012	2013	2012	2013	2012
Land	\$ 157,968	\$ 157,968	\$ 1,040	\$ 1,040	\$ 159,008	\$ 159,008
Construction in progress	-	-	-	1,227,873	-	1,227,873
Buildings	230,883	251,996	-	-	230,883	251,996
Infrastructure	697,020	673,919	-	-	697,020	673,919
Equipment	184,374	142,248	-	-	184,374	142,248
Vehicles	384,640	420,642	-	-	384,640	420,642
Plant and distribution systems	-	-	4,490,403	3,366,817	4,490,403	3,366,817
Total	1,654,885	1,646,773	\$ 4,491,443	\$ 4,595,730	\$ 6,146,328	\$ 6,242,503

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

Additional information on the Town's capital assets can be found in note III.A.4 of the Basic Financial Statements.

Long-term Debt. As of June 30, 2013, the Town had total installment purchase obligations outstanding of \$340,250.

**General Obligation and Bonds
Figure 5**

	Governmental <u>Activities</u>		Business-type <u>Activities</u>		<u>Total</u>	
	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>	<u>2013</u>	<u>2012</u>
Installment purchase obligations	\$ 340,250	\$ 399,425	\$ -	\$ -	\$ 340,250	\$ 399,425
Revenue Bonds	-	-	774,000	774,000	774,000	774,000
Total	\$ 340,250	\$ 399,425	\$ 774,000	\$ 774,000	\$ 1,114,250	\$ 1,173,425

Town of Haw River's Outstanding Debt

The Town's total debt decreased by \$59,175 during the past fiscal year due to principal paid by the Town on its debt obligations and new debt related to the recycling carts.

North Carolina general statutes limit the amount of general obligation debt that a unit of government can issue to 8 percent of the total assessed value of taxable property located within the government's boundaries. The legal debt margin for the Town of Haw River is \$10,179,027.

Additional information regarding the Town of Haw River's long-term debt can be found in note II.B.6 of this report.

Economic Factors and Next Year's Budgets and Rates

The following key economic indicators reflect the current economic conditions faced by the Town.

- Consumer spending levels have resulted in stabilization in sales tax revenues distributed to the Town. Small growth projections are predicted for coming year.
- Sales & Use Tax Hold Harmless payments will be reduced by \$58,000 next year due to sunset of Transitional Hold Harmless funds in June 2013.
- Continued increase (2.5%) in water and sewer rates assessed by the City of Burlington.
- With the implementation of the Affordable Healthcare Act, the Town is concerned about the effect this will have on major medical premiums.
- Continued decrease in interest rates that has dramatically reduced the Town's earnings on its investments.

**Town of Haw River
Management's Discussion and Analysis
For the Fiscal Year Ended June 30, 2013**

- We have had to address increases in operational expenses without corresponding increases in operational revenues.

Budget Highlights for the Fiscal Year Ending June 30, 2014

Governmental Activities: There are several challenges faced by management when preparing for the fiscal year ending June 30, 2014. We had to deal with the loss of Sales & Use Tax Hold Harmless payments due to sunset of Transitional Hold Harmless funds. This loss equates to approximately 3% of our General Fund Budget. We are anticipating stagnant sales & use tax revenues and decreased privilege license revenues along with rising operational costs. We are hopeful that further ad valorem tax increases will not be needed to offset loss of Transitional Hold Harmless funds.

Business – type Activities: The water and sewer rates in the Town will increase by 2.5% due to a 2.5% increase in rates charged to the Town by the City of Burlington. The budget allows for maintenance and repair costs, and addresses none of the capital purchases needed. Overall, the budget for the Water and Sewer Fund is just over 2.5% more than the current year's budget. Storm Water fees and the Storm Water Fund's overall budget are to remain the same as the current year levels.

Requests for Information

This report is designed to provide an overview of the Town's finances for those with an interest in this area. Questions concerning any of the information found in this report or requests for additional information should be directed to the Town Manager, Town of Haw River, 403 East Main Street, Haw River, NC 27258.

Basic Financial Statements

Government-Wide Financial Statements

Town of Haw River, North Carolina
Statement of Net Position
June 30, 2013

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 633,843	\$ 735,410	\$ 1,369,253
Taxes receivable (net)	51,363	-	51,363
Accrued interest receivable on taxes	8,547	-	8,547
Accounts receivable (net)	10,189	153,448	163,637
Due from other governments	165,099	-	165,099
Prepaid items	14,243	1,942	16,185
Restricted cash and cash equivalents	473,288	-	473,288
Total current assets	1,356,572	890,800	2,247,372
Non-current assets:			
Capital assets:			
Land, non-depreciable improvements and construction in progress	157,968	1,040	159,008
Other capital assets, net of depreciation	1,496,917	4,490,403	5,987,320
Total capital assets	1,654,885	4,491,443	6,146,328
Total assets	\$ 3,011,457	\$ 5,382,243	\$ 8,393,700
DEFERRED OUTFLOWS OF RESOURCES			
Charge on refunding	-	-	-
Total deferred outflows of resources	-	-	-
LIABILITIES			
Current liabilities:			
Accounts payable	\$ 20,358	\$ 107,364	\$ 127,722
Accrued interest payable	4,493	-	4,493
Customer deposits	-	40,910	40,910
Current portion of long-term liabilities	147,590	5,642	153,232
Total current liabilities	172,441	153,916	326,357
Long-term liabilities:			
Due in more than one year	460,287	823,829	1,284,116
Total liabilities	632,728	977,745	1,610,473
DEFERRED INFLOWS OF RESOURCES			
Unearned Revenue	902	-	902
Total deferred inflows of resources	902	-	902
NET POSITION			
Net Investment in capital assets	1,314,635	3,717,443	5,032,078
Restricted for:			
Transportation	368,637	-	368,637
Public safety	45,354	-	45,354
Cultural and recreation	59,297	-	59,297
Stabilization by State Statute	175,288	-	175,288
Unrestricted	414,616	687,055	1,101,671
Total net position	\$ 2,377,827	\$ 4,404,498	\$ 6,782,325

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

Town of Haw River, North Carolina
Statement of Activities
For the Year Ended June 30, 2013

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Position		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental Activities:							
General government	\$ 359,805	\$ -	\$ 7,573	\$ -	\$ (352,232)	\$ -	\$ (352,232)
Public safety	982,762	272,814	2,104	3,180	(704,664)	-	(704,664)
Transportation	211,757	-	61,721	-	(150,036)	-	(150,036)
Economic and physical development	11,805	-	-	-	(11,805)	-	(11,805)
Environmental protection	61,001	98,053	1,451	22,500	61,003	-	61,003
Cultural and recreation	170,805	8,391	-	50	(162,364)	-	(162,364)
Interest on long-term debt	14,339	-	-	-	(14,339)	-	(14,339)
Total governmental activities (See Note 1)	1,812,274	379,258	72,849	25,730	(1,334,437)	-	(1,334,437)
Business-type activities:							
Water and sewer	1,683,459	1,742,462	-	25,264	-	84,267	84,267
Stormwater	12,558	22,744	-	-	-	10,186	10,186
Total business-type activities	1,696,018	1,765,206	-	25,264	-	94,452	94,452
Total primary government	\$ 3,508,292	\$ 2,144,464	\$ 72,849	\$ 50,994	(1,334,437)	94,452	(1,239,985)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					678,436	-	678,436
Other taxes					83,796	-	83,796
Grants and contributions not restricted to specific programs					674,494	-	674,494
Unrestricted investment earnings					1,878	25	1,903
Miscellaneous					11,405	-	11,405
Total general revenues not including transfers					1,450,009	25	1,450,034
Transfers					-	-	-
Total general revenues and transfers					1,450,009	25	1,450,034
Change in net position					115,572	94,477	210,049
Net position, beginning					2,262,255	4,310,021	6,572,276
Net position, ending					\$ 2,377,827	\$ 4,404,498	\$ 6,782,325

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

Fund Financial Statements

Town of Haw River, North Carolina
Balance Sheet
Governmental Funds
June 30, 2013

	Major Fund	Non-Major Fund	Total Governmental Funds
	General	Grant Project Fund	
ASSETS			
Cash and cash equivalents	\$ 633,843	-	\$ 633,843
Restricted cash	473,288	-	473,288
Receivables, net			
Taxes	29,474	-	29,474
Fire district levy	21,889	-	21,889
Accounts	10,189	-	10,189
Prepaid items	14,243	-	14,243
Due from other governments	165,099	-	165,099
Due from other funds	-	-	-
Total assets	<u>1,348,025</u>	<u>-</u>	<u>1,348,025</u>
LIABILITIES			
Accounts payable and accrued liabilities	20,358	-	20,358
Due to other funds	-	-	-
Total liabilities	<u>20,358</u>	<u>-</u>	<u>20,358</u>
DEFERRED INFLOWS OF RESOURCES			
Unearned revenue	902	-	902
Property taxes receivable	29,474	-	29,474
Fire District taxes receivable	21,889	-	21,889
Total deferred inflows of resources	<u>52,265</u>	<u>-</u>	<u>52,265</u>
FUND BALANCES			
Restricted			
Stabilization by State Statute	175,288	-	175,288
Streets	368,637	-	368,637
Public Safety	45,354	-	45,354
Parks and Recreation	59,297	-	59,297
Economic & Physical Development	-	-	-
Assigned			
Subsequent year's expenditures	-	-	-
Unassigned	626,826	-	626,826
Total fund balances	<u>1,275,402</u>	<u>-</u>	<u>1,275,402</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,348,025</u>	<u>\$ -</u>	

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

Town of Haw River, North Carolina
Balance Sheet
Governmental Funds
June 30, 2013

Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:		
Total Fund Balance, Governmental Funds		1,275,402
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	\$ 4,425,003	
Accumulated depreciation	<u>(2,770,118)</u>	1,654,885
Other long-term assets (accrued interest receivable from taxes) are not due and payable in the current-period expenditures and therefore are not reported in the funds.		
		8,547
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		
		51,363
Some liabilities, including bonds payable, accrued interest, pension and other postemployment benefits, and compensated absences are not due and payable in the current period and therefore are not reported in the funds.		
		<u>(612,370)</u>
Net Position of governmental activities	\$	<u><u>2,377,827</u></u>

Town of Haw River, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds
For the Year Ended June 30, 2013

	Major Fund	Non-Major Fund	Total
	General Fund	Grant Project Fund	Governmental Funds
REVENUES			
Ad valorem taxes	\$ 669,306	\$ -	\$ 669,306
Other taxes and licenses	83,796	-	83,796
Unrestricted intergovernmental	674,494	-	674,494
Restricted intergovernmental	335,986	-	335,986
Sales and services	114,017	-	114,017
Investment earnings	1,878	-	1,878
Miscellaneous	37,135	-	37,135
Total revenues	1,916,612	-	1,916,612
EXPENDITURES			
Current:			
General government	347,464	-	347,464
Public safety	940,561	-	940,561
Transportation	238,902	-	238,902
Economic and physical development	-	11,805	11,805
Environmental protection	100,553	-	100,553
Cultural and recreation	179,071	-	179,071
Debt service:			
Principal and interest	97,508	-	97,508
Total expenditures	1,904,059	11,805	1,915,864
Excess (deficiency) of revenues over expenditures	12,553	(11,805)	748
OTHER FINANCING SOURCES (USES)			
Transfers to other funds	-	-	-
Transfers from other funds	-	-	-
Installment purchase obligations issued	23,000	-	23,000
Sales of capital assets	-	-	-
Total other financing sources (uses)	23,000	-	23,000
Net change in fund balance	35,553	(11,805)	23,748
Fund balances, beginning	1,239,849	11,805	1,251,654
Fund balances, ending	\$ 1,275,402	\$ -	\$ 1,275,402

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

Town of Haw River, North Carolina
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2013

Amounts reported for governmental activities in the statement of activities are different because:

Net changes in fund balances - total governmental funds (Exhibit 4) \$ 23,748

Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period

Capital outlay expenditures which were capitalized	130,930	
Depreciation expense for governmental assets	<u>(122,818)</u>	8,112

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Change in unavailable revenue for tax revenues	11,234
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction has any effect on net position. This amount is the net effect of these differences in the treatment of long-term debt and related items.

New long-term debt issued	(23,000)	
Principal payments on long-term debt	82,175	
Decrease in accrued interest payable	<u>994</u>	60,169

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Compensated absences	6,636	
Net pension obligation	13,306	
Other postemployment benefits	<u>(7,633)</u>	12,309

Total changes in net position of governmental activities	<u>\$ 115,572</u>
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The accompanying notes are an integral part of the financial statements.

Town of Haw River, North Carolina
General Fund
Statement of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual
For the Year Ended June 30, 2013

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
Revenues:				
Ad valorem taxes	\$ 677,150	\$ 677,150	\$ 669,306	\$ (7,844)
Other taxes and licenses	37,665	37,665	83,796	46,131
Unrestricted intergovernmental	664,500	664,500	674,494	9,994
Restricted intergovernmental	343,385	343,385	335,986	(7,399)
Sales and services	128,365	128,365	114,017	(14,348)
Investment earnings	4,300	4,300	1,878	(2,422)
Miscellaneous	8,400	30,900	37,135	6,235
Total revenues	1,863,765	1,886,265	1,916,612	30,347
Expenditures:				
Current:				
General government	359,537	378,337	347,464	30,873
Public safety	927,223	984,376	940,561	43,815
Transportation	266,566	293,147	238,902	54,245
Environmental protection	101,000	101,100	100,553	547
Cultural and recreation	189,439	202,183	179,071	23,112
Debt service:				
Principal and interest	97,500	97,500	97,508	(8)
Total expenditures	1,941,265	2,056,643	1,904,059	152,584
Revenues over (under) expenditures	(77,500)	(170,378)	12,553	182,931
Other financing sources (uses):				
Transfers to other funds:				
Grant Project Fund	-	-	-	-
Enterprise Fund	-	-	-	-
Installment purchase obligations issued	-	23,000	23,000	-
Sale of capital assets	2,500	2,500	-	(2,500)
Total other financing sources (uses)	2,500	25,500	23,000	(2,500)
Fund balance appropriated	75,000	144,878	-	144,878
Net change in fund balance	\$ -	\$ -	35,553	\$ 35,553
Fund balance, beginning			1,239,849	
Fund balance, ending			<u>\$ 1,275,402</u>	

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

Town of Haw River, North Carolina
Statement of Fund Net Position
Proprietary Funds
June 30, 2013

	Major	Non-Major	Total
	Enterprise Fund	Enterprise Fund	
	Water and Sewer Fund	Stormwater Fund	
ASSETS			
Current assets:			
Cash and cash equivalents	671,575	\$ 63,835	\$ 735,410
Accounts receivable (net)	151,753	1,695	153,448
Prepaid items	1,942	-	1,942
Due from other funds	-	-	-
Total current assets	825,270	65,530	890,800
Noncurrent assets:			
Capital assets:			
Land and construction in progress	1,040	-	1,040
Other capital assets, net of depreciation	4,490,403	-	4,490,403
Capital assets	4,491,443	-	4,491,443
Total noncurrent assets	4,491,443	-	4,491,443
Total assets	5,316,713	65,530	5,382,243
LIABILITIES			
Current liabilities:			
Accounts payable and accrued liabilities	106,532	832	107,364
Customer deposits	40,910	-	40,910
Compensated absences - current	5,642	-	5,642
Bond Anticipation Notes - current	-	-	-
Total current liabilities	153,084	832	153,916
Noncurrent liabilities:			
Other non-current liabilities:			
Other postemployment benefits	42,270	-	42,270
Compensated absences	7,559	-	7,559
Revenue Bonds - noncurrent	774,000	-	774,000
Total noncurrent liabilities	823,829	-	823,829
Total liabilities	976,913	832	977,745
NET POSITION			
Net Investment in capital assets	3,717,443	-	3,717,443
Unrestricted	622,357	64,698	687,055
Total net position	\$ 4,339,800	\$ 64,698	\$ 4,404,498

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

Town of Haw River, North Carolina
Statement of Revenues, Expenses and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2013

	Major Enterprise Fund	Non-Major Enterprise Fund	Total
	Water and Sewer Fund	Stormwater Fund	
OPERATING REVENUES			
Charges for services	\$ 1,709,322	\$ -	\$ 1,709,322
Taps and connection fees	8,175	-	8,175
Other operating revenues	24,965	22,744	47,709
Total operating revenues	1,742,462	22,744	1,765,206
OPERATING EXPENSES			
Administration	82,729	-	82,729
Water distribution	693,122	-	693,122
Sewer collection	708,312	-	708,312
Stormwater	-	12,558	12,558
Depreciation	170,247	-	170,247
Total operating expenses	1,654,409	12,558	1,666,967
Operating income (loss)	88,053	10,186	98,239
NONOPERATING REVENUES (EXPENSES)			
Investment earnings	25	-	25
Interest and other charges	(29,050)	-	(29,050)
Total nonoperating revenues (expenses)	(29,025)	-	(29,025)
Income (loss) before contributions and transfers	59,028	10,186	69,214
Capital contributions	25,264	-	25,264
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
Change in Net Position	84,292	10,186	94,478
Total Net Position, beginning	4,255,508	54,512	4,310,020
Total Net Position, ending	\$ 4,339,800	\$ 64,698	\$ 4,404,498

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

Town of Haw River, North Carolina
Statement of Cash Flows
Proprietary Funds
For the Fiscal Year Ended June 30, 2013

	Major		Total
	Enterprise Fund	Enterprise Fund	
	Water and Sewer Fund	Stormwater Fund	
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 1,717,497	\$ 22,681	\$ 1,740,178
Cash paid for goods and services	(1,268,303)	(11,950)	(1,280,253)
Cash paid to or on behalf of employees for services	(182,993)	-	(182,993)
Customer deposits (net)	(3,279)	-	(3,279)
Other operating revenues	24,965	-	24,965
Net cash provided (used) by operating activities	<u>287,887</u>	<u>10,731</u>	<u>298,618</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Decrease in Due from other funds	1,529	-	1,529
Transfers from other funds	-	-	-
Total cash flows from noncapital financing activities	<u>1,529</u>	<u>-</u>	<u>1,529</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Acquisition and construction of capital assets	(65,958)	-	(65,958)
Principal paid on installment purchase obligations	-	-	-
Capital Contributions- Federal grant	25,264	-	25,264
Interest paid on long-term debt	(29,050)	-	(29,050)
Net cash provided (used) by capital and related financing activities	<u>(69,744)</u>	<u>-</u>	<u>(69,744)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest and dividends	25	-	25
Net increase (decrease) in cash and cash equivalents	219,697	10,731	230,428
Balances, beginning	451,878	53,104	504,982
Balances, ending	<u>\$ 671,575</u>	<u>\$ 63,835</u>	<u>\$ 735,410</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating Income	\$ 88,053	\$ 10,186	\$ 98,239
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	170,247	-	170,247
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	1,198	(63)	1,135
Increase (decrease) in allowance for doubtful accounts	(2,859)	-	(2,859)
Increase (decrease) in accounts payable and accrued liabilities	19,428	608	20,036
Increase in prepaid items	(1,942)	-	(1,942)
Increase in customer deposits	(3,279)	-	(3,279)
Increase in accrued interest	1,715	-	1,715
Decrease in accrued vacation payable	3,411	-	3,411
Increase in OPEB liability	11,915	-	11,915
Total adjustments	<u>199,834</u>	<u>545</u>	<u>200,379</u>
Net cash provided by operating activities	<u>\$ 287,887</u>	<u>\$ 10,731</u>	<u>\$ 298,618</u>

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

Notes to the Financial Statements

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

I. Summary of Significant Accounting Policies

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

A. Reporting Entity

The Town is a municipal corporation that is governed by an elected mayor and a four-member council. As required by generally accepted accounting principles, these financial statements present the Town.

B. Basis of Presentation

Government-wide Statements: The statement of net position and the statement of activities display information about the Town. These statements include the financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. These statements distinguish between the *governmental* and *business-type activities* of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues, and other non-exchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Town and for each function of the Town’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Indirect expense allocations that have been made in the funds have been reversed for the statement of activities. Program revenues include (a) fees and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating 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, State grants, and various other taxes and licenses. The primary expenditures are for public safety, street maintenance and construction, and sanitation services.

Grant Project Special Revenue Fund. This fund is used to account for grant funds that are restricted for use for a particular purpose.

The Town reports the following major enterprise fund:

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

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

The Town reports the following non-major enterprise fund:

Stormwater Fund. This fund is used to account for the Town's stormwater program operations.

C. Measurement Focus and Basis of Accounting

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

Government-wide and Proprietary Fund Financial Statements. The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and donations is 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 nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Town's enterprise 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 water and sewer system. Operating expense for the enterprise funds includes the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating 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 are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of January 1, 1993, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, Alamance County is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts in the County, including the Town of Haw River. For motor vehicles registered under the staggered system, property taxes are due the first day of the fourth month after the vehicles are registered. The billed taxes are applicable to the fiscal year in which they become due. Therefore, the Town's vehicle taxes for vehicles registered in Alamance County from March 2012 through February 2013 apply to the fiscal year ended June 30, 2013. Uncollected taxes that were billed during this period are shown a receivable in these financial statements and are offset by deferred inflows of resources.

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

Sales taxes and certain intergovernmental revenues, such as utilities franchise tax, collected and held by the State at year-end on behalf of the Town are recognized as revenue. Intergovernmental revenues and sales and services are not susceptible to accrual because generally they are not measurable until received in cash. Grant revenues which are unearned at year-end are recorded as unearned 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 is both restricted and unrestricted net position available to finance the program. It is the Town's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants, and then by general revenues.

D. Budgetary Data

The Town's budgets are adopted as required by the North Carolina General Statutes. An annual budget is adopted for the General Fund and the Enterprise Funds. All annual appropriations lapse at the fiscal year-end. A project ordinance is adopted for the Grant Projects Special Revenue Fund. All budgets are prepared using the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the functional level for all annually budgeted funds and at the object level for the multi-year funds. Amendments are required for any revisions that alter total expenditures of any fund or that change functional appropriations by more than \$ 1,000. All amendments must be approved by the governing board or the governing board must adopt an interim budget that covers that time until the annual ordinance can be adopted.

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

1. Deposits and Investments

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

State law [G.S. 159-30(c)] authorizes the Town to invest in obligations of the United States or obligations fully guaranteed both as to principal and interest by the United States; obligations of the State of North Carolina; bonds and notes of any North Carolina local government or public authority; obligations of certain non-guaranteed federal agencies; certain high quality issues of commercial paper and bankers' acceptances and the North Carolina Capital Management Trust (NCCMT). The Town's investments are reported at fair value as determined by quoted market prices. The securities of the NCCMT-Cash Portfolio, a SEC-registered (2a7) money market mutual fund, are valued at fair value, which is the NCCMT's share price. The NCCMT Term Portfolio's securities are valued at fair value.

2. 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.

3. Restricted Assets

Powell Bill funds are classified as restricted cash because it 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. Monies donated to the Town by the Haw River Civic Center Association Inc. are classified as restricted cash because they can only be expended for maintenance, upkeep and enhancement of the Haw River Civic Center Building per the terms of the agreement with the donor organization. Federal forfeiture funds are also classified as restricted cash because it can be

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

expended only for activities to enhance future investigation; law enforcement training, equipment and operations; detention facilities; law enforcement facilities and equipment; and drug education and awareness programs per 21 U.S.C. 881 (e)(1)(A) and (e)(3), 18 U.S.C. 981 (e)(2), and 19 U.S.C. 1616a.. State authorized substance tax funds are classified as restricted cash because it can be expended only for activities to enhance the Town's police department's ability to deter and investigate crimes, especially drug offenses per G.S. 105-113.105 through 105-113-113.

4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1st, the beginning of the fiscal year. The taxes are due on September 1st (lien date); however, interest does not accrue until the following January 6th. These taxes are based on the assessed values as of January 1, 2012. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

5. 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.

6. Inventories

The Town's General Fund and Water and Sewer Fund inventories consist of materials and supplies held for subsequent use. The costs of these inventories are expensed when purchased rather than when consumed.

7. Capital Assets

Capital assets are defined by the government as assets with an initial, individual cost of more than a certain cost and an estimated useful life in excess of two years. Minimum capitalization costs are as follows: land, \$10,000; buildings, improvements, substations, lines, and other plant and distribution systems, \$15,000; infrastructure, \$20,000; equipment and furniture, \$5,000; vehicles and motorized equipment, \$10,000; computer software and computer equipment \$5,000. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated fair value at the date of donation. General infrastructure assets acquired prior to July 1, 2003, consist of the road network and water and sewer system assets that were acquired or that received substantial improvements subsequent improvements subsequent to July 1, 1980, and are reported at estimated historical cost using deflated replacement cost. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings and improvements	40
Plant and Distribution System	40
Infrastructure	40
Equipment and Furniture	5-10
Vehicles	5

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

8. Deferred outflows/inflows of resources

In addition to assets, the statement of financial 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 does not have any items that meet this criterion. In addition to liabilities, the statement of financial 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 only two items that meet the criterion for this category – ad valorem and fire taxes receivables.

9. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using straight-line method that approximates the effective interest method. Bonds payable are reported net of the applicable bond premiums or discount. Bond issuance costs, except for prepaid insurance costs, are expensed in the reporting period in which they are incurred. Prepaid insurance costs are expensed over the life of the debt.

In fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

10. Compensated Absences

The vacation policy of the Town provides for the accumulation of up to thirty days earned vacation leave with such leave being fully vested when earned. For the Town's government-wide and proprietary funds, an expense and a liability for compensated absences and the salary-related payments are recorded as the leave is earned. The Town has assumed a first-in, first-out method of using accumulated compensated time. The portion of that time that is estimated to be used in the next fiscal year has been designated as a current liability in the government-wide financial statements.

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

11. 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.

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

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:

Nonspendable 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.

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)].

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

Restricted for Public Safety – portion of fund balance that is restricted by revenue source for law enforcement activities expenditures.

Restricted for Parks and Recreation – portion of fund balance that is restricted by a donor organization for maintenance, upkeep and enhancement of the Haw River Civic Center Building.

Committed Fund Balance – portion of fund balance that can only be used for specific purposes imposed by majority vote by quorum of Town of Haw River’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 – portion of fund balance that Town of Haw River intends to use for specific purposes.

Subsequent year’s expenditures – portion of fund balance that is appropriated in the next year’s budget that is not already classified in restricted or committed. The governing body approves the appropriation; however the budget ordinance authorizes the manager to transfer amounts up to \$1,000 between functional areas including contingency appropriations, within the same fund.

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

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

**Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

II. Detail Notes on All Funds

A. Assets

1. Deposits

All the deposits of the Town are either insured or collateralized by using one of two methods. Under the Dedicated Method, all deposits that exceed the federal depository insurance coverage level are collateralized with securities held by the Town's agents in the Town's name. Under the Pooling Method, which is a collateral pool, all uninsured deposits are collateralized with securities held by the State Treasurer's agent in the name of the State Treasurer. Since the State Treasurer is acting in a fiduciary capacity for the Town, these deposits are considered to be held by the Town's agents in the Town's name. The amount of the pledged collateral is based on an approved averaging method for non-interest bearing deposits and the actual current balance for interest-bearing deposits. Depositories using the Pooling Method report to the State Treasurer the adequacy of their pooled collateral covering uninsured deposits. The State Treasurer does not confirm this information with the Town or the escrow agent. Because of the inability to measure the exact amounts of collateral pledged for the Town under the Pooling Method, the potential exists for under-collateralization, and this risk may increase in periods of high cash flows. However, the State Treasurer of North Carolina enforces strict standards of financial stability for each depository that collateralizes public deposits under the Pooling Method. The Town has no policy regarding custodial credit risk for deposits, but relies on the State Treasurer to enforce standards of minimum capitalization for all pooling method financial institutions and to monitor them for compliance. The Town complies with the provisions of G.S. 159-31 when designating official depositories and verifying that deposits are properly secured.

At June 30, 2013, the Town's deposits had a carrying amount of \$695,229 and a bank balance of \$823,040. Of the bank balance, \$250,000 was covered by federal depository insurance and the remainder was covered by collateral held under the pooling method. At June 30, 2013, the Town's petty cash fund totaled \$300.

2. Investments

At June 30, 2013, the Town's investment balances were as follows:

Investment Type	Fair Value	Maturity	Rating
Certificate of Deposit – Vantage South Bank	\$ 100,000	February 1, 2014	N/A
Certificate of Deposit – Vantage South Bank	100,000	February 28, 2014	N/A
Certificate of Deposit – Bank of America	29,825	August 10, 2013	N/A
NC Capital Management Trust – Cash Portfolio	917,187	N/A	AAAm
Total:	<u>\$ 1,147,012</u>		

Interest Rate Risk. The Town does not have a formal investment policy regarding interest rate risk.

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 the NC Capital Management Trust Cash Portfolio carried a credit rating of AAAm by Standard & Poor's as of June 30, 2013.

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

3. Receivables – Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and Statement of Net Position for the year ended June 30, 2013 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	\$ 22,234
Fire Districts levy receivable	<u>14,593</u>
Total	36,827
Enterprise Funds:	
Accounts receivable	<u>3,735</u>
Total	<u>\$ 40,562</u>

4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2013, was as follows:

Governmental activities:	Beginning Balances	Increases	Decreases	Ending Balances
Capital assets not being depreciated:				
Land	\$ 157,968	\$ -	\$ -	\$ 157,968
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>157,968</u>	<u>-</u>	<u>-</u>	<u>157,968</u>
Capital assets being depreciated:				
Buildings	777,759	-	-	777,759
Equipment	1,389,951	76,648	-	1,466,599
Infrastructure	1,247,686	54,282	-	1,301,968
Vehicles	720,709	-	-	720,709
Total capital assets being depreciated	<u>4,136,105</u>	<u>130,930</u>	<u>-</u>	<u>4,267,035</u>
Less accumulated depreciation for:				
Buildings and improvements	525,763	21,113	-	546,876
Equipment, furniture and fixtures	1,247,703	34,522	-	1,282,225
Infrastructure	573,767	31,181	-	604,948
Vehicles	300,067	36,002	-	336,069
Total accumulated depreciation	<u>2,647,300</u>	<u>\$ 122,818</u>	<u>\$ -</u>	<u>2,770,118</u>
Total capital assets being depreciated, net	<u>1,488,805</u>			<u>1,496,917</u>
Governmental activity capital assets, net	<u>\$ 1,646,773</u>			<u>\$ 1,654,885</u>

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

General government	\$ 21,106
Public safety	64,233
Transportation	30,156
Recreation	2,856
Environmental protection	<u>4,467</u>
Total depreciation expense	<u>\$ 122,818</u>

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

Business-type activities:	Beginning			Ending
	Balances	Increases	Decreases	Balances
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	\$ 1,040	\$ -	\$ -	\$ 1,040
Construction in progress	1,227,875	-	1,227,875	-
Total capital assets not being depreciated	<u>1,228,915</u>	-	-	<u>1,040</u>
Capital assets being depreciated:				
Plant and distribution systems	7,013,308	1,272,389	-	8,285,697
Equipment and furniture	193,978	-	-	193,978
Vehicles	10,748	21,444	-	32,192
Total capital assets being depreciated	<u>7,218,034</u>	<u>1,293,833</u>	-	<u>8,511,867</u>
Less accumulated depreciation for:				
Plant and distribution systems	3,646,491	167,030	-	3,813,521
Equipment and furniture	193,978	-	-	193,978
Vehicles	10,748	3,217	-	13,965
Total accumulated depreciation	<u>3,851,217</u>	<u>\$ 170,247</u>	<u>\$ -</u>	<u>4,021,464</u>
Total capital assets being depreciated, net	<u>3,366,817</u>			<u>3,366,817</u>
Business-type activities capital assets, net	<u>\$ 4,595,732</u>			<u>\$ 4,491,443</u>

B. Liabilities

1. Pension Plan and Postemployment Obligations

a. Local Governmental Employees' Retirement System

Plan Description. The Town of Haw River contributes to 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 provides retirement and disability benefits to plan members and beneficiaries. Article 3 of G.S. Chapter 128 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The 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, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute six percent of their annual covered salary. The Town is required to contribute at an actuarially determined rate. For the Town, the current rate for employees not engaged in law enforcement and for law enforcement officers is 6.74% and 6.77%, respectively, of annual covered payroll. The contribution requirements of members and of the Town of Haw River are established and may be amended by the North Carolina General Assembly. The Town's contributions to LGERS for the years ended June 30, 2013, 2012, and 2011 were \$56,033, \$58,152, and \$51,818, respectively. The contributions made by the Town equaled the required contributions for each year.

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

b. Law Enforcement Officers' Special Separation Allowance

1. *Plan Description.*

The Town of Haw River administers a public employee retirement system (the "Separation Allowance"), a single-employer defined benefit pension plan that provides retirement benefits to the Town's qualified sworn law enforcement officers. The Separation Allowance is equal to .85 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. At December 31, 2012, the Separation Allowance's membership consisted of:

Retirees receiving benefits	3
Terminated plan members entitled to but not yet receiving benefits	-
Active plan members	8
Total	<u>11</u>

A separate report was not issued for the plan.

2. *Summary of Significant Accounting Policies:*

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

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

3. *Contributions.*

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

The annual required contribution for the current year was determined as part of the December 31, 2012 actuarial valuation using the projected unit credit actuarial cost method. The actuarial assumptions included (a) 5.00% investment rate of return (net of administrative expenses) and (b) projected salary increases ranging from 4.25% – 7.85% per year. Both (a) and (b) included an inflation component of 3.00%. The assumptions did not include postretirement benefit increases.

Annual Pension Cost and Net Pension Obligation. The Town's annual pension cost and net pension obligation to the Separation Allowance for the current year were as follows:

Annual required contribution	\$ 27,158
Interest on net pension obligation	3,815
Adjustment to annual required contribution	<u>(4,749)</u>
Annual pension cost	26,224
Contributions made	<u>39,530</u>
Increase (decrease) in net pension obligation	(13,306)
Net pension obligation beginning of year	<u>76,309</u>
Net pension obligation end of year	<u>\$ 63,003</u>

**Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

Three Year Trend Information

For the Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2011	\$ 20,506	63.72%	\$ 77,302
2012	21,255	104.67%	76,309
2013	26,224	150.74%	63,003

4. Funded Status and Funding Progress

As of December 31, 2012, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and unfunded actuarial accrued liability (UAAL) was \$323,508. The covered payroll (annual payroll of active employees covered by the plan) was \$302,402, and the ratio of the UAAL to the covered payroll was 106.98 percent.

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

c. Supplemental Retirement Income Plan for Law Enforcement Officers

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

Funding Policy. Article 12E of G.S. Chapter 143 requires the Town to contribute each month an amount equal to five percent of each officer's salary, and all amounts contributed are vested immediately. Also, the law enforcement officers may make voluntary contributions to the plan. Contributions for the year ended June 30, 2013 were \$15,670, which consisted of \$15,430 from the Town and \$240 from the law enforcement officers.

The Town has also elected to have all of its other employees who are members of the Local Governmental Employees' Retirement System participate in the Supplemental Retirement Income Plan. The Town contributes 5% for non-law enforcement officers, and employees may make voluntary contributions to the plan. Contributions for non-law enforcement officers for the year ended June 30, 2013 were \$25,827 which consisted of \$21,062 from the Town and \$4,765 from the employees.

d. Firemen's and Rescue Squad Workers' Pension Fund

Plan Description. The State of North Carolina contributes, on behalf of the Town of Haw River, to the Firemen's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State North Carolina. The Fund provides pension benefits for eligible fire and rescue squad workers that have elected to become members of the fund. Article 86 of G.S. Chapter 58 assigns the authority to establish and amend benefit provisions to the North Carolina General Assembly. The Firemen's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firemen's

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

Funding Policy. Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town has elected to contribute the required \$10 per month to the Fund on behalf of each plan member. Total contributions from the Town for the year ended June 30, 2013 were \$2,760. Contribution requirements of plan members and State of North Carolina are established and may be amended by the North Carolina General Assembly.

e. Other Postemployment Benefits

Healthcare Benefits

Plan Description. Under the terms of a Town resolution, the Town administers a single-employer defined benefit Healthcare Benefits Plan (the HCB Plan), health care benefits to retirees of the Town, provided they participate in the North Carolina Local Governmental Employees' Retirement System (System) and have at least five years of credible service with the Town. The Town obtains health care coverage through private insurers. The Town's retirees can purchase coverage for their dependents at the Town's group rates. Currently, two retirees are eligible for postretirement health benefits. For the fiscal year ended June 30, 2013, the Town made payments of \$57,900 for postretirement health premiums.

The Town's contribution to the cost of coverage for eligible retirees is based on the following schedule:

The Town will pay the percentage of premium for coverage for employees hired before August 1, 2010 based on the following schedule:

<u>Years of Service</u> <u>At Retirement</u>	<u>Town</u> <u>Contribution</u>
20 or more	100 %
15-19	75%
10-14	50%
5-9	25%

The Town will pay the percentage of premium for coverage for employees hired on or after August 1, 2010 based on the following schedule:

<u>Years of Service</u> <u>At Retirement</u>	<u>Town</u> <u>Contribution</u>
30 or more	100 %
25-29	75%
20-24	50%

Employees with five or more years of Town service who retire under disability will have 100% of the health plan premium paid by the Town.

Membership of the HCB Plan consisted of the following at December 31, 2010, the date of the latest actuarial valuation:

	<u>General</u> <u>Employees</u>	<u>Law Enforcement</u> <u>Officers</u>
Retirees and dependents receiving benefits	2	1
Active plan members	12	8
Total	14	9

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

Funding Policy. The Town pays the full cost of coverage for the healthcare benefits paid to qualified retirees under a Town resolution that can be amended by the Town Council. The Town has chosen to fund the healthcare benefits on a pay as you go basis.

The current ARC rate is 10.69% of annual covered payroll. For the current year, the Town contributed \$57,900 or 6.79% of annual covered payroll. The Town obtains healthcare coverage through private insurers. There were no contributions made by employees. The Town's obligation to contribute to the HCB Plan is established and may be amended by the Town Council.

Summary of Significant Accounting Policies. Postemployment expenditures are made from the General Fund, which is maintained on the modified accrual basis of accounting. No funds are set aside to pay benefits and administration costs. These expenditures are paid as they come due.

Annual OPEB Cost and Net OPEB Obligation. The Town's annual OPEB cost (expense) is calculated based on the *annual required contribution of the employer* (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Town's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the Town's net OPEB obligation for the health care benefits:

Annual required contribution	\$ 77,336
Interest on net OPEB obligation	2,514
Adjustment to annual required contribution	<u>(2,402)</u>
Annual OPEB cost (expense)	77,448
Contributions made	<u>(57,900)</u>
Increase (decrease) in net OPEB obligation	19,548
Net OPEB obligation, beginning of year	<u>154,743</u>
Net OPEB obligation, end of year	<u><u>\$ 174,291</u></u>

The Town's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2013 were as follows:

For Year Ended	Annual	Percentage of Annual	Net OPEB
June 30	OPEB Cost	OPEB Cost Contributed	Obligation
2013	\$ 77,448	74.8%	\$ 174,291
2012	\$ 77,448	46.4%	\$ 154,743
2011	\$ 77,448	35.0%	\$ 113,199

Funded Status and Funding Progress. As of December 31, 2010, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and, thus, the unfunded actuarial accrued liability (UAAL) was \$1,036,951. The covered payroll (annual payroll of active employees covered by the plan) was \$852,065, and the ratio of the UAAL to the covered payroll was 121.7 percent. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and healthcare trends. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions. Projections of benefits for financial reporting purposes are based on the

Town of Haw River, North Carolina
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For the Fiscal Year Ended June 30, 2013

substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members at that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value assets, consistent with the long-term perspective of the calculations.

In the December 31, 2010 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4.00 percent investment rate of return (net of administrative expenses), which is the expected long-term investment returns on the employer’s own investments calculated based on the funded level of the plan at the valuation date, and an annual medical cost trend increase of 10.50 to 5.00 percent annually. The investment rate included a 3.00 percent inflation assumption. The actuarial value of assets, if any, was determined using techniques that spread the effects of short-term volatility in the market value of investments over a 5 year period. The UAAL is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period at December 31, 2010, was 30 years.

2. 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 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 month’s salary in a row during the 24 months prior to the employee’s death, but the benefit may not exceed \$50,000 or be less than \$25,000. All death benefit payments are made from the Death Benefit Plan. The Town has no liability beyond the payment of monthly contributions. The contributions to the Death Benefit cannot be separated between the post-employment benefit amount and the other benefit amount. The Town considers these contributions to be immaterial.

3. Deferred Outflows and Inflows of Resources

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

	Unavailable Revenue	Unearned Revenue
Prepaid privilege licenses (General Fund)	\$ -	\$ 902
Taxes receivable (General Fund)	29,474	-
Fire district levy receivable (General Fund)	21,889	-
Total	\$ 51,363	\$ 902

4. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town participates in three self-funded risk-financing pools administered by the North Carolina League of Municipalities. Through these pools, the Town obtains general liability and auto liability coverage of \$1 million per occurrence, property coverage up to the total insurance values of the property policy, workers’ compensation coverage up to statutory limits, and employee health coverage up to a \$2 million lifetime limit. The pools are reinsured through commercial companies for single occurrence claims against general liability and auto liability in excess of \$1 million, property liability in excess of \$500,000, and \$300,000 up to statutory limits for workers’ compensation. The pools are reinsured for annual employee health claims in excess of \$350,000. The property liability pool has an aggregate limit for the total property losses in a single year, with the reinsurance limit based

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

upon a percentage of the total insurance values.

The Town carries commercial coverage for all other risks of loss. There have been no significant reductions in insurance coverage in the prior year, and settled claims have not exceeded coverage in any of the past three fiscal years.

The Town has blanket coverage up to \$5 million in flood insurance as long as it is in NFIP Flood Map Zones B, C, and X; outside of these zones, there is no coverage. There is a \$50,000 deductible.

In accordance with G.S. 159-29, the Town's employees that have access to \$100 or more at any given time of the Town's funds are performance bonded through a commercial surety bond. The finance officer, town clerk and other employees are each individually bonded for \$50,000 each.

5. Claims, Judgments and Contingent Liabilities

At June 30, 2013, the Town was a defendant to various lawsuits. In the opinion of the Town's management and the Town attorney, the ultimate effect of these legal matters will not have a material adverse effect on the Town's financial position.

6. Long-Term Obligations

a. Installment Purchases

Governmental Activities:

In February 2009, the Town entered into an installment purchase contract to finance a Fire Engine. The financing contract requires 10 annual payments of \$47,574 beginning in fiscal year 2010 with an interest rate of 4.15%.

Annual debt service payments of the installment purchase as of June 30, 2013, including \$49,052 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	37,275	10,299
2015	38,822	8,752
2016	40,433	7,141
2017	42,110	5,464
2018	43,858	3,716
2019 – Thereafter	<u>46,307</u>	<u>1,896</u>
Total	<u>\$ 248,805</u>	<u>\$ 37,267</u>

In February 2009, the Town entered into an installment purchase contract to finance Radio Equipment. The financing contract requires 10 semi-annual payments of \$11,754 beginning fiscal year 2010 with an interest rate of 3.70%.

Annual debt service payments of the installment purchase as of June 30, 2013, including \$2,063 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	<u>23,066</u>	<u>602</u>
Total	<u>\$ 23,066</u>	<u>\$ 602</u>

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

In March 2012, the Town entered into an installment purchase contract to finance two police cars. The financing contract requires 4 annual payments of \$18,375 beginning in fiscal year 2013 with an interest rate of 2.13%.

Annual debt service payments of the installment purchase as of June 30, 2013, including \$2,267 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	17,249	1,126
2015	17,617	758
2016	<u>17,992</u>	<u>383</u>
Total	<u>\$ 52,858</u>	<u>\$ 2,267</u>

In July 2012, the Town entered into an installment purchase contract to finance Recycling Roll Carts. The financing contracts requires 3 annual payments of \$8,052 beginning fiscal year 2013 with an interest rate of 2.49%.

Annual debt service payments of the installment purchase as of June 30, 2013, including \$582 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	7,665	386
2015	<u>7,856</u>	<u>196</u>
Total	<u>\$ 15,521</u>	<u>\$ 582</u>

Business-type Activities:

b. Revenue Bond

\$774,000 Water and Sewer Revenue Bond, Series 2012 issued for water and sewer system improvements. Principle installments are due annually on June 1, beginning June 2015 with annual interest payments beginning June 2013, at an annual interest rate of 2.75%.

\$ 774,000

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>
2014	-	21,285
2015	12,000	21,285
2016	12,000	20,955
2017	12,000	20,625
2018	13,000	20,295
2019-2023	70,000	95,948
2024-thereafter	<u>655,000</u>	<u>304,397</u>
Total	<u>\$ 774,000</u>	<u>\$ 504,790</u>

Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013

b. Changes in Long-Term Liabilities

	Beginning Balance	Increases	Decreases	Ending Balance	Current Portion of Balance
Governmental activities:					
Installment purchases	\$ 399,425	\$ 23,000	\$ 82,175	\$ 340,250	\$ 85,255
Compensated absences	79,239	-	6,636	72,603	62,335
Net pension obligation	76,309	-	13,306	63,003	-
Other postemployment benefits	124,388	7,633	-	132,021	-
Governmental activity long-term liabilities	<u>\$ 679,361</u>	<u>\$ 30,633</u>	<u>\$ 102,117</u>	<u>\$ 607,877</u>	<u>\$ 147,590</u>
Business-type activities:					
Installment purchases	\$ -	\$ -	\$ -	\$ -	\$ -
Revenue Bonds	774,000	-	-	774,000	-
Compensated absences	16,612	-	3,411	13,201	5,642
Other postemployment benefits	30,355	11,915	-	42,270	-
Business-type activity long-term liabilities	<u>\$ 820,967</u>	<u>\$ 11,915</u>	<u>\$ 3,411</u>	<u>\$ 829,471</u>	<u>\$ 5,642</u>

At June 30, 2013, the Town of Haw River had a legal debt margin of \$10,179,027.

C. Interfund Balances and Activity

The interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Transfers to/from other funds at June 30, 2013, consist of the following:

From the Wastewater Capital Project Fund to the Water Sewer Fund	<u>4,828</u>
Total	<u>\$ 4,828</u>

Transfers are used to move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided matching funds for various grant programs.

The Town also made a transfer from the Waste Water Capital Project Fund to the Water Sewer fund to repay the water sewer fund for previous expense related to the wastewater pump station replacement project.

**Town of Haw River, North Carolina
Notes to the Financial Statements
For the Fiscal Year Ended June 30, 2013**

D. Fund Balance

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

Total fund balance-General Fund	\$1,275,402
Less:	
Stabilization by State Statute	175,288
Streets-Powell Bill	368,637
Public Safety	45,354
Parks and Recreation	59,297
Appropriated Fund Balance in 2014 budget	-
Remaining Fund Balance	626,826

IV. Jointly Governed Organization

The Town, in conjunction with six counties and thirty-eight other municipalities established the Piedmont Triad Council of Governments (Council). The participating governments established the Council to coordinate various funding received from federal and State agencies. Each participating government appoints one member to the Council's governing board. The Town paid membership fees of \$550 to the Council during the fiscal year ended June 30, 2013.

V. Summary Disclosure of Significant Contingencies

Federal and State Assisted Programs

The Town has received proceeds from several federal and State grants. Periodic audits of these grants are required and certain costs may be questioned as not being appropriate expenditures under the grant agreement. 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.

VI. Significant Effects of Subsequent Events

Events Occurring After Reporting Date

The company has evaluated events and transactions that occurred between June 30, 2013 and October 18, 2013 which is the date the financial statements were available to be issued, for possible recognitions or disclosure in the financial statements.

VII. Change in Accounting Principles/Restatement

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

Required Supplementary Financial Data

This section contains additional information required by generally accepted accounting principles.

- Schedule of Funding Progress for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Employer Contributions for the Law Enforcement Officers' Special Separation Allowance.
- Notes to the Required Schedules for the Law Enforcement Officers' Special Separation Allowance.
- Schedule of Funding Progress for the Other Postemployment Benefits.
- Schedule of Employer Contributions for the Other Postemployment Benefits.
- Notes to the Required Schedules for the Other Postemployment Benefits.

Town of Haw River, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
		Liability (AAL) Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)			
12/31/04	-	\$93,322	\$93,322	0%	\$289,812	32.2%
12/31/05	-	\$61,260	\$61,260	0%	\$314,454	19.5%
12/31/06	-	\$156,971	\$156,971	0%	\$271,955	57.7%
12/31/07	-	\$168,301	\$168,301	0%	\$313,174	53.7%
12/31/08	-	\$182,193	\$182,193	0%	\$334,114	54.5%
12/31/09	-	\$224,269	\$224,269	0%	\$341,204	65.7%
12/31/10	-	\$222,091	\$222,091	0%	\$342,986	64.8%
12/31/11	-	\$274,909	\$274,909	0%	\$350,444	78.4%
12/31/12	-	\$323,508	\$323,508	0%	\$302,402	106.9%

Town of Haw River, North Carolina
Law Enforcement Officers' Special Separation Allowance
Required Supplementary Information
Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2007	\$8,779	148.8%
2008	\$14,839	88.1%
2009	\$16,302	80.2%
2010	\$18,277	71.5%
2011	\$20,506	63.7%
2012	\$22,001	101.1%
2013	\$27,158	145.6%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows:

Valuation date	12/31/2012
Actuarial cost method	Projected unit credit
Amortization method	Level percent of pay closed
Remaining amortization period	18 years
Asset valuation method	Market Value
Actuarial assumptions:	
Investment rate of return*	5.00%
Projected salary increases*	4.25 - 7.85%
*Includes inflation at	3.00%
Cost-of-living adjustments	N/A

Town of Haw River, North Carolina
Other Postemployment Benefits
Required Supplementary Information
Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued		Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
		Liability (AAL) - Projected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)			
12/31/10	-	\$1,036,951	\$1,036,951	0%	\$852,065	121.7%
12/31/09	-	\$803,110	\$803,110	0%	\$866,834	92.6%

Town of Haw River, North Carolina
Other Postemployment Benefits
Required Supplementary Information
Schedule of Employer Contributions

Year Ended June 30	Annual Required Contribution	Percentage Contributed
2013	\$77,336	74.9%
2012	\$77,336	46.4%
2011	\$77,448	35.0%

Notes to the Required Schedules:

The information presented in the required supplementary schedules was determined as part actuarial valuation follows:

Valuation date	12/31/2010
Actuarial cost method	Projected unit credit
Amortization method	Level percentage of Pay, open
Remaining amortization period	30 years
Asset valuation method	Market Value of Assets
Actuarial assumptions	
Investment Rate of Return*	4.00%
Medical cost trend rate	10.50% - 5.00%
Year of Ultimate trend rate	2018
*Includes inflation at	3.00%

Individual Fund Schedules

General Fund

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

Town of Haw River, North Carolina
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2013

	Original Budget	Budget	Actual	Variance Positive (Negative)
Revenues:				
Ad valorem taxes:				
Current year	\$ 643,150	\$ 643,150	\$ 644,860	
Prior years	25,000	25,000	20,392	
Penalties and interest	9,000	9,000	4,054	
Total	<u>\$ 677,150</u>	<u>\$ 677,150</u>	<u>669,306</u>	<u>\$ (7,844)</u>
Other taxes and licenses:				
Motor vehicle licenses	65	65	78	
Privilege licenses	37,600	37,600	83,718	
Total	<u>37,665</u>	<u>37,665</u>	<u>83,796</u>	<u>46,131</u>
Unrestricted intergovernmental:				
Local option sales taxes	348,000	348,000	356,693	
Hold harmless distribution	165,000	165,000	171,767	
Utility franchise tax	140,000	140,000	136,064	
Franchise fees	2,200	2,200	656	
Beer and wine tax	9,300	9,300	9,314	
Total	<u>664,500</u>	<u>664,500</u>	<u>674,494</u>	<u>9,994</u>
Restricted intergovernmental:				
Powell Bill allocation	60,000	60,000	61,721	
Alamance County fire district tax	277,185	277,185	271,418	
Federal grants	-	-	-	
Equitable share of Federally forfeited property	3,500	3,500	-	
Unauthorized substance tax	1,250	1,250	1,396	
Solid waste disposal tax	1,450	1,450	1,451	
Total	<u>343,385</u>	<u>343,385</u>	<u>335,986</u>	<u>(7,399)</u>
Sales and services:				
Rentals	12,900	12,900	7,573	
Recreation department fees	13,365	13,365	8,391	
Refuse collection fees	102,100	102,100	98,053	
Total	<u>128,365</u>	<u>128,365</u>	<u>114,017</u>	<u>(14,348)</u>

Town of Haw River, North Carolina
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2013

	Original Budget	Budget	Actual	Variance Positive (Negative)
Investment earnings	4,300	4,300	1,878	(2,422)
Miscellaneous:				
Police Department	2,000	2,000	3,162	
Park donations	1,500	1,500	50	
Recreation Grant				
Recycling Grant	-	22,500	22,500	
Fire department	500	500	18	
Other revenues	4,400	4,400	11,405	
Total	8,400	30,900	37,135	6,235
Total revenues	1,863,765	1,886,265	1,916,612	30,347
Expenditures:				
General government:				
Governing body:				
Salaries and employee benefits	10,350	10,350	10,335	
Other operating expenditures	4,500	5,700	4,648	
Total	14,850	16,050	14,983	1,067
Administration:				
Salaries and employee benefits	150,792	150,792	150,368	
Maintenance	3,000	2,920	3,147	
Other operating expenditures	68,950	68,430	60,066	
Capital outlay	5,000	22,340	15,910	
Total	227,742	244,482	229,491	14,991
Public buildings:				
Other operating expenditures	36,500	36,860	31,803	
Capital improvements	3,000	3,500	3,500	
Total	39,500	40,360	35,303	5,057
Non-departmental:				
Insurance and bonds	63,000	63,000	56,242	6,758

Town of Haw River, North Carolina
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2013

	Original Budget	Budget	Actual	Variance Positive (Negative)
Special appropriations:				
Elections	2,000	2,000	-	2,000
Cemetery association	1,000	1,000	-	1,000
Animal shelter	11,445	11,445	11,445	-
Total	14,445	14,445	11,445	3,000
Total general government	359,537	378,337	347,464	30,873
Public safety:				
Police:				
Salaries and employee benefits	511,946	512,546	512,011	
Vehicle maintenance	37,142	37,142	32,147	
Other operating expenditures	40,850	51,653	45,975	
Capital outlay	1,200	1,550	1,550	
Total	591,138	602,891	591,683	11,208
Fire:				
Salaries and employee benefits	255,106	256,486	254,437	
Vehicle maintenance	27,500	25,050	22,834	
Other operating expenditures	46,879	47,949	22,350	
Capital outlay	6,600	52,000	49,257	
Total	336,085	381,485	348,878	32,607
Total public safety	927,223	984,376	940,561	43,815
Transportation:				
Streets and highways:				
Salaries and employee benefits	89,891	106,537	105,035	
Vehicle maintenance	9,300	10,430	9,911	
Street Lights	20,000	21,500	21,492	
Contracted services	75,500	85,650	91,805	
Other operating expenditures	66,375	63,530	10,659	
Capital outlay	5,500	5,500	-	
Total transportation	266,566	293,147	238,902	54,245

Town of Haw River, North Carolina
General Fund
Schedule of Revenues, Expenditures and
Changes in Fund Balances - Budget and Actual
For the Fiscal Year Ended June 30, 2013

	Original Budget	Budget	Actual	Variance Positive (Negative)
Environmental protection:				
Solid waste:				
Contracted services	101,000	101,100	100,553	
Total environmental protection	101,000	101,100	100,553	547
Culture and recreation:				
Parks and recreation:				
Salaries and employee benefits	124,097	128,276	121,755	
Vehicle maintenance	6,536	5,101	2,918	
Other operating expenditures	39,050	40,925	37,679	
Capital outlay	19,756	27,881	16,719	
Total culture and recreation	189,439	202,183	179,071	23,112
Debt Service:				
Principal			82,175	
Interest			15,333	
Total debt service	97,500	97,500	97,508	(8)
Total expenditures	1,941,265	2,056,643	1,904,059	152,584
Revenues over (under) expenditures	(77,500)	(170,378)	12,553	182,931
Other financing sources (uses):				
Transfers to/from other funds:				
Grant Project Fund	-	-	-	-
Enterprise Fund	-	-	-	-
Installment purchase obligations issued	-	23,000	23,000	-
Sales of capital assets	2,500	2,500	-	(2,500)
Total	2,500	25,500	23,000	(2,500)
Fund balance appropriated	75,000	144,878	-	(144,878)
Net change in fund balance	\$ -	\$ -	35,553	\$ 35,553
Fund balances, beginning			1,239,849	
Fund balances, ending			\$ 1,275,402	

Grant Project Special Revenue Fund

The Grant Project Special Revenue Fund accounts for grant funds that are restricted for use for a particular purpose.

Town of Haw River, North Carolina
Special Revenue Fund - Grant Project Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balances - Budget and Actual
From Inception and For the Fiscal Year Ended June 30, 2013

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues:					
Restricted intergovernmental:					
Community Development Building Grant					
CDBG Rehabilitation Grant # 2	\$ 100,000	\$ 100,000	\$ -	\$ 100,000	\$ -
Franklin Products CDBG Reuse Grant	160,000	105,277	-	105,277	(54,723)
Local Funds	21,311	21,311	-	21,311	-
Total revenues	<u>281,311</u>	<u>226,588</u>	<u>-</u>	<u>226,588</u>	<u>(54,723)</u>
Expenditures:					
Current:					
Economic and physical development:					
CDBG Rehabilitation Grant # 2					
Administration	10,000	10,000	-	10,000	-
Street improvements	40,000	40,000	-	40,000	-
Rehabilitation	50,000	50,000	-	50,000	-
Rehabilitation - Local Funds	21,311	9,506	11,805	21,311	-
Total	<u>121,311</u>	<u>109,506</u>	<u>11,805</u>	<u>121,311</u>	<u>-</u>
Franklin Products CDBG Building Reuse Grant					
Rehabilitation	160,000	105,277	-	105,277	54,723
Total	<u>160,000</u>	<u>105,277</u>	<u>-</u>	<u>105,277</u>	<u>54,723</u>
Total expenditures	<u>281,311</u>	<u>214,783</u>	<u>11,805</u>	<u>226,588</u>	<u>54,723</u>
Revenues over expenditures	<u>-</u>	<u>11,805</u>	<u>(11,805)</u>	<u>-</u>	<u>-</u>
Other financing sources:					
Transfers from other funds:					
General Fund	-	-	-	-	-
Net change in fund balance	<u>\$ -</u>	<u>\$ 11,805</u>	<u>(11,805)</u>	<u>\$ -</u>	<u>\$ -</u>
Fund balance, beginning			<u>11,805</u>		
Fund balance, ending			<u>\$ -</u>		

Enterprise Funds

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

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

Stormwater Fund – This fund is used to account for the Town’s stormwater program operations.

Wastewater Pump Station Capital Project Fund – This fund is used to account for the Town’s Wastewater Pump Station Capital Project.

Town of Haw River, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2013

	Budget	Actual	Variance Positive (Negative)
Operating Revenues:			
Charges for services:			
Water sales	\$ 850,578	\$ 889,432	\$ 38,854
Sewer charges	755,300	818,690	63,390
Surcharges	1,200	1,200	-
Total	1,607,078	1,709,322	102,244
Taps and connection fees	10,000	8,175	(1,825)
Other operating revenues	25,990	24,965	(1,025)
Total operating revenues	1,643,068	1,742,462	99,394
Nonoperating revenues:			
Interest earnings	50	25	(25)
Total revenues	1,643,118	1,742,487	99,369
Expenditures:			
Water and sewer administration:			
Salaries and employee benefits	92,658	54,549	38,109
Supplies and materials	1,500	1,465	35
Contracted services	8,000	7,547	453
Other operating expenses	32,245	19,840	12,405
Capital outlay	2,500	5,790	(3,290)
Total water and sewer administration	136,903	89,191	47,712
Water distribution:			
Salaries and employee benefits	54,161	54,106	55
Supplies	12,500	9,060	3,440
Maintenance	5,000	2,040	2,960
Water purchased for resale	613,080	608,902	4,178
Other operating expenditures	17,325	15,406	1,919
Capital outlay	21,500	21,444	56
Total water distribution	723,566	710,958	12,608

Town of Haw River, North Carolina
Water and Sewer Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2013

	Budget	Actual	Variance Positive (Negative)
Sewer collection system:			
Salaries and employee benefits	62,532	62,422	110
Supplies	10,500	8,407	2,093
Maintenance	14,000	7,190	6,810
Purchase of sewer service	554,704	554,990	(286)
Other operating expenditures	70,788	69,735	1,053
Capital outlay	41,724	38,724	3,000
Total sewer collection system	<u>754,248</u>	<u>741,468</u>	<u>12,780</u>
Debt Service:			
Principal and interest	40,000	27,335	12,665
Total expenditures	<u>1,654,717</u>	<u>1,568,952</u>	<u>85,765</u>
Revenues over (under) expenditures	(11,599)	173,535	185,134
Other financing sources (uses):			
Transfer from other fund:			
Waste Water Fund	-	4,828	4,828
Appropriated Fund Balance	11,599	-	11,599
Revenues and other sources over expenditures and other uses:	<u>\$ -</u>	<u>\$ 178,363</u>	
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Revenues and other sources over expenditures and other uses		178,363	
Reconciling Items:			
Principal retirement		-	
Capital Outlay		65,958	
Increase in bond interest accrued		(1,715)	
Decrease in accrued vacation pay		3,411	
Increase in accrued OPEB liability		(11,915)	
Capital Contributions		25,264	
Transfer to Water and Sewer from Wastewater fund		(4,828)	
Depreciation		(170,247)	
Total reconciling items		<u>(94,071)</u>	
Change in Net Position		<u>\$ 84,292</u>	

Town of Haw River, North Carolina
Stormwater Fund
Schedule of Revenues and Expenditures
Budget and Actual (Non-GAAP)
For the Fiscal Year Ended June 30, 2013

	Budget	Actual	Variance Positive (Negative)
Operating revenues			
Stormwater fees	\$ 22,000	\$ 22,744	\$ 744
Total operating revenues	22,000	22,744	744
Total revenues	22,000	22,744	744
Expenditures:			
Stormwater expenditures	22,000	12,558	9,442
Total expenditures	22,000	12,558	9,442
Revenues over (under) expenditures	-	10,186	10,186
Other financing sources:			
Transfers from other funds:			
General Fund	-	-	-
Revenues over expenditures and other financing sources	\$ -	10,186	\$ 10,186
Reconciliation from budgetary basis (modified accrual) to full accrual:			
Reconciling Items:		-	
Change in net assets		\$ 10,186	

Town of Haw River, North Carolina
Water and Sewer Capital Projects Fund
Schedule of Revenues and Expenditures - Budget and Actual (Non - GAAP)
From Inception and For the Fiscal Year Ended June 30, 2013

	Project Authorization	Actual		Total to Date	Variance Positive (Negative)
		Prior Years	Current Year		
Revenues - Wastewater Project:					
Restricted intergovernmental:					
Federal grant	\$ 434,659	\$ 409,395	25,264	434,659	\$ -
Investment earnings	298	298	-	298	-
Total revenues	434,957	409,693	25,264	434,957	-
Expenditures - Wastewater Project:					
Construction	1,077,917	1,077,917	-	1,077,917	-
Engineering	108,958	108,958	-	108,958	-
Administrative	959	959	-	959	-
Inspection	26,359	26,359	-	26,359	-
Interest	14,944	-	14,944	14,944	-
Legal	12,623	6,833	5,790	12,623	-
Contingency	6,849	6,849	-	6,849	-
Total expenditures	1,248,609	1,227,875	20,734	1,248,609	-
Revenues under expenditures	(813,652)	(818,182)	4,530	(813,652)	-
Other financing sources:					
Transfers from other funds:					
From Water and Sewer Fund	44,480	44,480	-	44,480	-
To Water and Sewer Fund	(4,828)	-	(4,828)	(4,828)	-
Revenue bonds issued	774,000	774,000	-	774,000	-
Total other sources	813,652	818,480	(4,828)	813,652	-
Revenues and other sources over (under) expenditures	\$ -	\$ 298	\$ (298)	\$ -	\$ -

Other Schedules

This section includes additional information on property taxes.

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

Town of Haw River, North Carolina
General Fund
Schedule of Ad Valorem Taxes Receivable
June 30, 2013

Fiscal Year	Uncollected Balance June 30, 2012	Additions	Collections And Credits	Uncollected Balance June 30, 2013
2012-2013	\$ -	\$ 677,816	\$ 645,612	\$ 32,204
2011-2012	22,811		15,711	7,100
2010-2011	5,155		2,971	2,184
2009-2010	2,372		936	1,436
2008-2009	2,153		243	1,910
2007-2008	1,810		252	1,558
2006-2007	1,751		293	1,458
2005-2006	1,602		-	1,602
2004-2005	1,447		121	1,326
2003-2004	1,064		134	930
2002-2003	1,508	-	1,508	-
Total	\$ 41,673	\$ 677,816	\$ 667,781	51,708
Less allowance for uncollectible ad valorem taxes receivable				22,234
Ad valorem taxes receivable - net				<u>\$ 29,474</u>
Reconciliation with revenues:				
Ad valorem taxes - General Fund			\$ 669,306	
Reconciling items:				
Interest collected			(4,054)	
Discounts allowed			1,021	
Taxes written off			1,508	
Subtotal			<u>(1,525)</u>	
Total collections and credits			<u>\$ 667,781</u>	

Town of Haw River, North Carolina
Analysis of Current Tax Levy
Town Wide Levy
For the Fiscal Year Ended June 30, 2013

	Town - Wide		Total Levy		
	Property	Total	Property	Registered	
	Valuation		Rate		Excluding
			Registered	Motor	
			Motor	Vehicles	
			Vehicles	Vehicles	
Original levy:					
Property taxed at current	\$ 141,684,994	0.48	\$ 680,088	\$ 616,616	\$ 63,472
Penalties	-		219	219	
Total	141,684,994		680,307	616,835	63,472
Discoveries:					
Current year taxes	86,042	0.48	413	344	69
Penalties	-		-	-	-
Abatements	(605,063)		(2,904)	(872)	(2,032)
Total Property Valuation	\$ 141,165,973		677,816	616,307	61,509
Uncollected taxes at June 30, 2013			32,204	21,803	10,401
Current year's taxes collected			\$ 645,612	\$ 594,504	\$ 51,108
Current levy collection percentage			95.25%	96.46%	83.09%

Compliance Section

Winston, Williams, Creech, Evans, & Company, LLP

Certified Public Accountants



America Counts on CPAs

James P. Winston II, CPA
Gary L. Williams, CPA
Carleen P. Evans, CPA

Jennifer T. Reese, CPA
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Cathy E. McKinley, CPA
Tara H. Roberson, CPA
K. Jamison Crampton, CPA

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 Haw River, North Carolina

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregated remaining fund information of the Town of Haw River, North Carolina as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprises the Town of Haw River's basic financial statements, and have issued our report thereon dated October 18, 2013.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and responses to be material weaknesses. [13-1]

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Dogwood's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Town of Haw River's Response to Findings

The Town of Haw River's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Winston, Williams, Creech, Evans & Company, LLP

Winston, Williams, Creech, Evans & Company, LLP
Certified Public Accountants
Oxford, North Carolina
October 18, 2013

**TOWN OF HAW RIVER, NORTH CAROLINA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

A. Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Significant deficiency(ies) identified that are not considered to be material weakness Yes None reported

Noncompliance material to financial statements noted Yes No

State Awards

Internal Control Over State Programs:

Material weakness(es) identified? Yes No

Significant Deficiency(s) identified that are not considered to be material weakness Yes No

Noncompliance material to state awards Yes No

Type of auditors' report issued on compliance for major state program: Unqualified

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

Identification of major state Programs:

None

B. Financial Statement Findings

13-1 Segregation of Duties

Material Weakness

Criteria: Duties should be segregated to provide reasonable assurance that transactions are handled appropriately.

Condition: There is a lack of segregation of duties among Town personnel.

Effect: Transactions could be mishandled and not be detected.

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

Recommendation: The duties should be separated as much as possible, and alternative controls should be used to compensate for lack of segregation of duties. The governing board should provide some of these controls.

Views of responsible officials and planned corrective actions: The Town agrees with this finding and will provide additional oversight.

**TOWN OF HAW RIVER, NORTH CAROLINA
CORRECTIVE ACTION PLAN
FOR THE YEAR ENDED JUNE 30, 2013**

Section II - Financial Statement Findings

Finding: 13-1

Name of contact person: Jeff Earp, Town Manager

Corrective Action: The duties will be separated as much as possible and alternative controls will be used to compensate for lack of separation. The Town Manager plans to cross-train employees in order to better segregate some of these duties.

Proposed Completion Date: Immediately.