

**Town of Haw River**  
**Financial Statements**  
**June 30, 2014**

**Town of Haw River  
North Carolina**

**June 30, 2014**

**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

**Town of Haw River, North Carolina**  
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## **Financial Section**

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

Certified Public Accountants



America Counts on CPAs

James P. Winston II, CPA  
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K. Jamison Crampton, CPA

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

#### *Management's Responsibility for the Financial Statements*

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

#### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 respective 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, 2014, 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 been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, based on our audit, the procedures as detailed above, 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 September 30, 2014 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  
September 30, 2014



## **Management's Discussion and Analysis**

**Town of Haw River**  
**Management's Discussion and Analysis**  
**For the Fiscal Year Ended June 30, 2014**

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

**Financial Highlights**

- The 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 \$6,826,467 (*net position*).
- The government's total net position *increased* by \$44,142, due to an *increase* in the governmental activities net position and *decrease* in 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 \$1,457,227 with a net change of \$181,825 in fund balance. Approximately 66.68 percent of this total amount, or \$971,724, is restricted.
- At the end of the current fiscal year, unassigned fund balance for the General Fund was \$485,503, or 27.18 percent of total general fund expenditures for the fiscal year.
- The Town of Haw River's total liabilities decreased by \$35,495 (2.20%) during the current fiscal year. The key factors in this decrease was principle payments made during the year and no new debt.

**Overview of the Financial Statements**

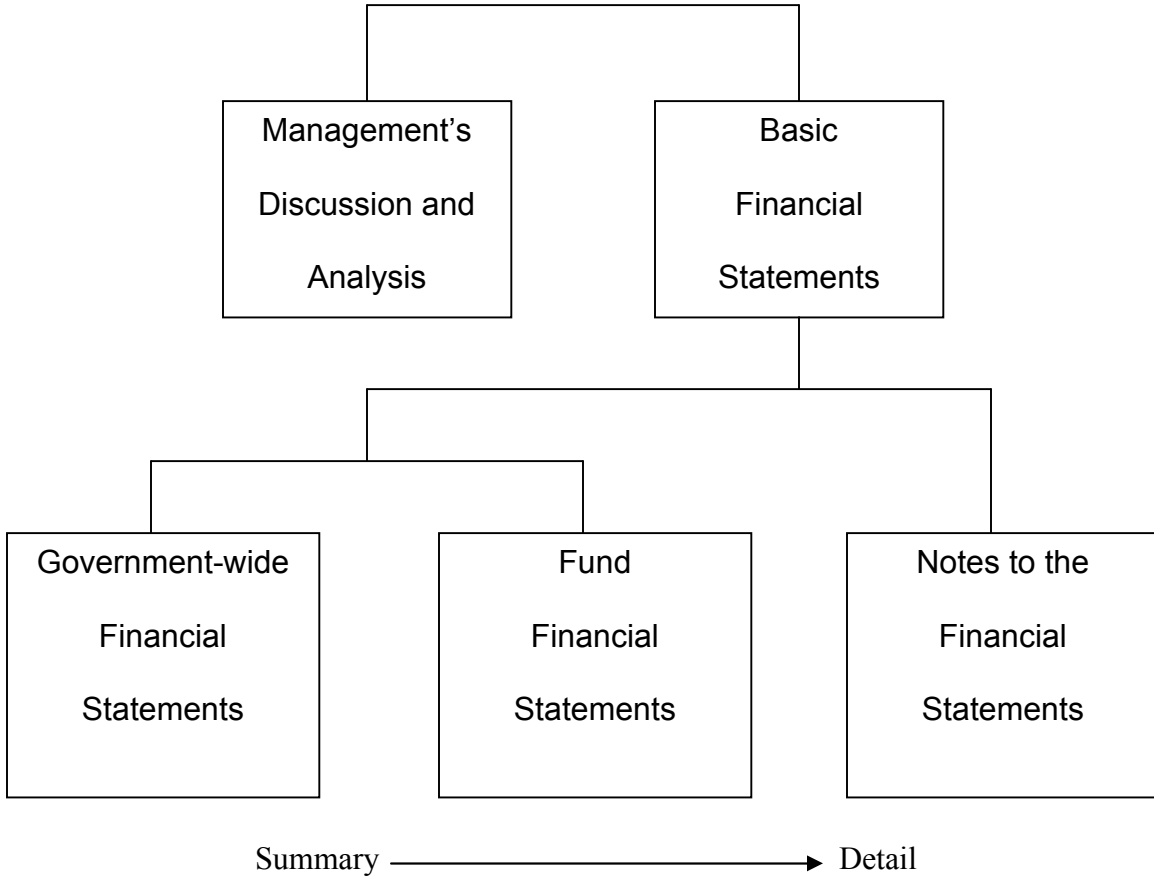
This discussion and analysis are intended to serve as an introduction to Town's basic financial statements. The Town's basic financial statements consist of three components; 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements (see Figure 1). 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, 2014**

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**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, 2014**

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### **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, 2014**

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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, 2014**

**Government-Wide Financial Analysis**

**Town of Haw River's Net Position**

**Figure 2**

	Governmental Activities		Business-Type Activities		Total	
	2014	2013	2014	2013	2014	2013
Current and other assets	\$ 1,543,213	\$ 1,356,572	\$ 984,728	\$ 890,800	\$ 2,527,941	\$ 2,247,372
Capital assets	1,533,663	1,654,885	4,348,582	4,491,443	5,882,245	6,146,328
Deferred outflows of resources	-	-	-	-	-	-
Total assets and deferred outflows of resources	3,076,876	3,011,457	5,333,310	5,382,243	8,410,186	8,393,700
Long-term liabilities outstanding	560,330	607,877	846,929	829,471	1,407,259	1,437,348
Other liabilities	25,183	24,851	142,536	148,274	167,719	173,125
Deferred inflows of resources	8,741	902	-	-	8,741	902
Total liabilities and deferred inflows of resources	594,254	633,630	989,465	977,745	1,583,719	1,611,375
Net position:						
Net investment in capital assets related debt	1,278,659	1,314,635	3,574,582	3,717,443	4,853,241	5,032,078
Restricted	899,724	648,576	33,285	-	933,009	648,576
Unrestricted	304,239	414,616	735,978	687,055	1,040,217	1,101,671
Total net position	<u>\$ 2,482,622</u>	<u>\$ 2,377,827</u>	<u>\$ 4,343,845</u>	<u>\$ 4,404,498</u>	<u>\$ 6,826,467</u>	<u>\$ 6,782,325</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 \$6,826,467 as of June 30, 2014. The Town's net position increased by \$44,142 for the fiscal year ended June 30, 2014. However, the largest portion (71.09%) 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, \$933,009, represents resources that are subject to external restrictions on how they may be used. The remaining balance of \$1,040,217 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 \$54,152.

**Town of Haw River  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014**

- Increased collection of NC Tax and Tag motor vehicle taxes during the current year due to change of collection process.
- Continued diligence in the collection of property taxes by maintaining a positive tax collection percentage of 96.73%, which is comparable to the statewide average of 96.93% for similar-sized municipalities.

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

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 544,656	\$ 379,258	\$ 1,819,371	\$ 1,765,206	\$ 2,364,027	\$ 2,144,464
Operating grants and contributions	14,296	72,849	-	-	14,296	72,849
Capital grants and contributions	-	25,730	-	25,264	-	50,994
General revenues:						
Property taxes	728,246	678,436	-	-	728,246	678,436
Other taxes	19,954	83,796	-	-	19,954	83,796
Grants and contributions not restricted to specific programs						
Other	652,170	674,494	-	-	652,170	674,494
Investment earnings	3,211	11,405	-	-	3,211	11,405
	1,019	1,878	36	25	1,055	1,878
<b>Total revenues</b>	<b>1,963,552</b>	<b>1,927,846</b>	<b>1,819,407</b>	<b>1,790,495</b>	<b>3,782,959</b>	<b>3,718,341</b>
<b>Expenses:</b>						
General government	331,523	359,805	-	-	331,523	359,805
Public safety	975,128	982,762	-	-	975,128	982,762
Transportation	233,979	211,757	-	-	233,979	211,757
Economic and physical development	-	11,805	-	-	-	11,805
Environmental protection	144,805	61,001	-	-	144,805	61,001
Culture and recreation	161,921	170,805	-	-	161,921	170,805
Interest on long-term debt	11,401	14,339	-	-	11,401	14,339
Water and sewer	-	-	1,865,898	1,683,459	1,865,898	1,683,459
Stormwater	-	-	14,162	12,558	14,162	12,558
<b>Total expenses</b>	<b>1,858,757</b>	<b>1,812,274</b>	<b>1,880,060</b>	<b>1,696,018</b>	<b>3,738,817</b>	<b>3,508,292</b>
Increase (decrease) in net position before transfers	104,795	115,572	(60,653)	94,477	44,142	210,049
Transfers	-	-	-	-	-	-
Increase (decrease) in net position	104,795	115,572	(60,653)	94,477	44,142	210,049
Net position, July 1	2,377,827	2,262,255	4,404,498	4,310,021	6,782,325	6,572,276
Net position, June 30	\$ 2,482,622	\$ 2,377,827	\$ 4,343,845	\$ 4,404,498	\$ 6,826,467	\$ 6,782,325

**Town of Haw River  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014**

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**Governmental activities.** Governmental activities increased the Town's net position by \$104,795, thereby accounting for 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 \$62,078.
- General Government expenses decreased \$28,282.
- Cultural and recreation total expenses decreased \$8,884.

**Business-type activities:** Business-type activities decreased the Town's net position by \$60,653, accounting for the total decrease in net position of the Town of Haw River. Key elements of this increase are as follows:

- Water and sewer expenses increased by \$182,439.

**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 \$485,503, while total fund balance reached \$1,457,227. The Town currently has an available fund balance of 27.18 percent of total General Fund expenditures, while total fund balance represents 81.56 percent of that same amount.

At June 30, 2014, the governmental funds of Town of Haw River reported a combined fund balance of \$1,457,227 with a net increase in fund balance of \$181,825.

**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 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.



**Town of Haw River  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014**

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**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 \$662,685, and those for the Stormwater Fund amounted to \$73,293. Net position decreased in the Water and Sewer Fund by \$69,248 and net position in the Stormwater Fund increased by \$8,595 in the current fiscal year. The change in net position of the Water and Sewer Fund is a result of inflow costs of water that has significantly increased the Town's expenses. 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, 2014, totals \$5,882,245 (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:

- Water and Sewer improvements and equipment totaling \$29,131.

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

	Governmental Activities		Business-type Activities		Total	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Land	\$ 157,968	\$ 157,968	\$ 1,040	\$ 1,040	\$ 157,968	\$ 159,008
Construction in progress	-	-	-	-	-	-
Buildings	209,771	230,883	-	-	209,771	230,883
Infrastructure	667,119	697,020	-	-	667,119	697,020
Equipment	148,115	184,374	-	-	148,115	184,374
Vehicles	350,690	384,640	-	-	350,690	384,640
Plant and distribution systems	-	-	4,347,542	4,490,403	4,347,542	4,490,403
<b>Total</b>	<u>1,533,663</u>	<u>1,654,885</u>	<u>\$ 4,348,582</u>	<u>\$ 4,491,443</u>	<u>\$ 5,882,245</u>	<u>\$ 6,146,328</u>

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, 2014, the Town had total installment purchase obligations outstanding of \$255,004.

**Town of Haw River  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014**

**General Obligation and Bonds  
Figure 5**

	Governmental <u>Activities</u>		Business-type <u>Activities</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Installment purchase obligations	\$ 255,004	\$ 340,250	\$ -	\$ -	\$ 255,004	\$ 340,250
Revenue Bonds	-	-	774,000	774,000	774,000	774,000
<b>Total</b>	<b>\$ 255,004</b>	<b>\$ 340,250</b>	<b>\$ 774,000</b>	<b>\$ 774,000</b>	<b>\$ 1,029,004</b>	<b>\$ 1,114,250</b>

**Town of Haw River's Outstanding Debt**

The Town's total debt decreased by \$85,246 during the past fiscal year due to principal paid by the Town on its debt obligations.

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 \$10,935,619.

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 a small growth in sales tax revenues distributed to the Town. Small growth projections are predicted again for the coming year.
- Sales & Use Tax Hold Harmless payments will be reduced by \$46,000 next year due to sunset of Transitional Hold Harmless funds in June 2014.
- Continued increase (4%) 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 continue to have on major medical premiums.
- Continued decrease in interest rates that has dramatically reduced the Town's earnings on its investments.
- We have had to continually address increases in operational expenses without corresponding increases in operational revenues.

**Town of Haw River  
Management's Discussion and Analysis  
For the Fiscal Year Ended June 30, 2014**

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**Budget Highlights for the Fiscal Year Ending June 30, 2015**

**Governmental Activities:** There are several challenges faced by management when preparing for the fiscal year ending June 30, 2015. 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 decreased privilege license revenues due to state legislative action along with rising operational costs.

**Business – type Activities:** The water and sewer rates in the Town will increase by 4% due to a 4% increase in rates charged to the Town by the City of Burlington. The budget allows for maintenance and repair costs, and addresses almost none of the capital purchases needed. Overall, the budget for the Water and Sewer Fund is just over 5.75% more than the current year's budget. Storm Water fees and the Storm Water Fund's overall budget are to increase just over 2% of 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, 2014**

	Primary Government		
	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	\$ 727,906	\$ 828,476	\$ 1,556,382
Taxes receivable (net)	46,477	-	46,477
Accrued interest receivable on taxes	9,044	-	9,044
Accounts receivable (net)	80,286	154,065	234,351
Due from other governments	196,921	-	196,921
Prepaid items	9,688	2,187	11,875
Restricted cash and cash equivalents	472,891	-	472,891
Total current assets	1,543,213	984,728	2,527,941
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	1,375,695	4,347,542	5,723,237
Total capital assets	1,533,663	4,348,582	5,882,245
Total assets	\$ 3,076,876	\$ 5,333,310	\$ 8,410,186
<b>DEFERRED OUTFLOWS OF RESOURCES</b>			
Charge on refunding	-	-	-
Total deferred outflows of resources	-	-	-
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable	\$ 21,724	\$ 98,244	\$ 119,968
Accrued interest payable	3,459	1,716	5,175
Customer deposits	-	42,576	42,576
Current portion of long-term liabilities	133,923	18,770	152,693
Total current liabilities	159,106	161,306	320,412
Long-term liabilities:			
Due in more than one year	426,407	828,159	1,254,566
Total liabilities	585,513	989,465	1,574,978
<b>DEFERRED INFLOWS OF RESOURCES</b>			
Unearned Revenue	8,741	-	8,741
Total deferred inflows of resources	8,741	-	8,741
<b>NET POSITION</b>			
Net Investment in capital assets	1,278,659	3,574,582	4,853,241
Restricted for:			
General Government	46,312	-	46,312
Transportation	370,007	-	370,007
Public safety	146,881	-	146,881
Cultural and recreation	59,317	-	59,317
Stabilization by State Statute	277,207	-	277,207
USDA	-	33,285	33,285
Unrestricted	304,239	735,978	1,040,217
Total net position	\$ 2,482,622	\$ 4,343,845	\$ 6,826,467

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, 2014**

Functions/Programs	Net (Expense) Revenue and Changes in Net Position						
	Expenses	Program Revenues			Primary Government		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total
<b>Primary government:</b>							
Governmental Activities:							
General government	\$ 331,523	\$ 13,425	\$ -	\$ -	\$ (318,098)	\$ -	\$ (318,098)
Public safety	975,128	362,113	12,498	-	(600,517)	-	(600,517)
Transportation	233,979	62,346	-	-	(171,633)	-	(171,633)
Environmental protection	144,805	96,784	1,298	-	(46,723)	-	(46,723)
Cultural and recreation	161,921	9,988	500	-	(151,433)	-	(151,433)
Interest on long-term debt	11,401	-	-	-	(11,401)	-	(11,401)
Total governmental activities (See Note 1)	1,858,757	544,656	14,296	-	(1,299,805)	-	(1,299,805)
Business-type activities:							
Water and sewer	1,865,898	1,796,614	-	-	-	(69,284)	(69,284)
Stormwater	14,162	22,757	-	-	-	8,595	8,595
Total business-type activities	1,880,060	1,819,371	-	-	-	(60,689)	(60,689)
Total primary government	\$ 3,738,817	\$ 2,364,027	\$ 14,296	\$ -	(1,299,805)	(60,689)	(1,360,494)
General revenues:							
Taxes:							
Property taxes, levied for general purpose					728,246	-	728,246
Other taxes					19,954	-	19,954
Grants and contributions not restricted to specific programs					652,170	-	652,170
Unrestricted investment earnings					1,019	36	1,055
Miscellaneous					3,211	-	3,211
Total general revenues not including transfers					1,404,600	36	1,404,636
Transfers					-	-	-
Total general revenues and transfers					1,404,600	36	1,404,636
Change in net position					104,795	(60,653)	44,142
Net position, beginning					2,377,827	4,404,498	6,782,325
Net position, ending					\$ 2,482,622	\$ 4,343,845	\$ 6,826,467

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, 2014**

	Major Fund	Total
	General	Governmental Funds
<b>ASSETS</b>		
Cash and cash equivalents	\$ 727,906	\$ 727,906
Restricted cash	472,891	472,891
Receivables, net		
Taxes	25,839	25,839
Fire district levy	20,638	20,638
Accounts	80,286	80,286
Prepaid items	9,688	9,688
Due from other governments	196,921	196,921
Due from other funds	-	-
Total assets	<u>1,534,169</u>	<u>1,534,169</u>
<b>LIABILITIES</b>		
Accounts payable and accrued liabilities	21,724	21,724
Due to other funds	-	-
Total liabilities	<u>21,724</u>	<u>21,724</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Unearned revenue	8,741	8,741
Property taxes receivable	25,839	25,839
Fire District taxes receivable	20,638	20,638
Total deferred inflows of resources	<u>55,218</u>	<u>55,218</u>
<b>FUND BALANCES</b>		
Restricted		
Stabilization by State Statute	277,207	277,207
General Government	46,312	46,312
Transportation	370,007	370,007
Public Safety	146,881	146,881
Cultural and Recreation	59,317	59,317
Assigned		
Subsequent year's expenditures	72,000	72,000
Unassigned	485,503	485,503
Total fund balances	<u>1,457,227</u>	<u>1,457,227</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,534,169</u>	

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

**Town of Haw River, North Carolina**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2014**

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Amounts reported for governmental activities in the Statement of Net Position (Exhibit 1) are different because:		
Total Fund Balance, Governmental Funds	1,457,227	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.		
Gross capital assets at historical cost	\$ 4,411,136	
Accumulated depreciation	<u>(2,877,473)</u>	1,533,663
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.		
		9,044
Liabilities for earned revenues considered deferred inflows of resources in fund statements.		
		46,477
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>(563,789)</u>
Net Position of governmental activities	\$	<u><u>2,482,622</u></u>

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 Balance**  
**Governmental Funds**  
**For the Year Ended June 30, 2014**

	Major Fund	Total
	General Fund	Governmental Funds
<b>REVENUES</b>		
Ad valorem taxes	\$ 731,384	\$ 731,384
Other taxes and licenses	19,954	19,954
Unrestricted intergovernmental	652,170	652,170
Restricted intergovernmental	433,060	433,060
Sales and services	122,197	122,197
Investment earnings	1,019	1,019
Miscellaneous	8,157	8,157
Total revenues	1,967,941	1,967,941
<b>EXPENDITURES</b>		
Current:		
General government	297,785	297,785
Public safety	901,943	901,943
Transportation	202,310	202,310
Environmental protection	140,093	140,093
Cultural and recreation	146,303	146,303
Debt service:		
Principal and interest	97,682	97,682
Total expenditures	1,786,116	1,786,116
Excess (deficiency) of revenues over expenditures	181,825	181,825
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers to other funds	-	-
Transfers from other funds	-	-
Sales of capital assets	-	-
Total other financing sources (uses)	-	-
Net change in fund balance	181,825	181,825
Fund balances, beginning	1,275,402	1,275,402
Fund balances, ending	\$ 1,457,227	\$ 1,457,227

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, 2014**

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

Net changes in fund balances - total governmental funds (Exhibit 4) \$ 181,825

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	-	
Depreciation expense for governmental assets	(121,222)	(121,222)

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	(4,390)
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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.

Principal payments on long-term debt	85,247	
Decrease in accrued interest payable	1,034	86,281

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	(20,233)	
Net pension obligation	13,675	
Other postemployment benefits	(31,141)	(37,699)

Total changes in net position of governmental activities	\$ 104,795
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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, 2014**

	Original Budget	Final Budget	Actual	Variance with Final Budget - Positive (Negative)
<b>Revenues:</b>				
Ad valorem taxes	\$ 676,500	\$ 676,500	\$ 731,384	\$ 54,884
Other taxes and licenses	15,165	15,165	19,954	4,789
Unrestricted intergovernmental	573,200	573,200	652,170	78,970
Restricted intergovernmental	474,706	474,706	433,060	(41,646)
Sales and services	122,865	122,865	122,197	(668)
Investment earnings	1,750	1,750	1,019	(731)
Miscellaneous	9,000	9,000	8,157	(843)
<b>Total revenues</b>	<b>1,873,186</b>	<b>1,873,186</b>	<b>1,967,941</b>	<b>94,755</b>
<b>Expenditures:</b>				
<b>Current:</b>				
General government	314,593	319,187	297,785	21,402
Public safety	913,926	952,442	901,943	50,499
Transportation	359,553	360,568	202,310	158,258
Environmental protection	102,700	152,700	140,093	12,607
Cultural and recreation	159,457	161,369	146,303	15,066
<b>Debt service:</b>				
Principal and interest	97,509	97,709	97,682	27
<b>Total expenditures</b>	<b>1,947,738</b>	<b>2,043,975</b>	<b>1,786,116</b>	<b>257,859</b>
<b>Revenues over (under) expenditures</b>	<b>(74,552)</b>	<b>(170,789)</b>	<b>181,825</b>	<b>352,614</b>
<b>Other financing sources (uses):</b>				
<b>Transfers to other funds:</b>				
Grant Project Fund	-	-	-	-
Enterprise Fund	-	-	-	-
Sale of capital assets	2,500	2,500	-	(2,500)
<b>Total other financing sources (uses)</b>	<b>2,500</b>	<b>2,500</b>	<b>-</b>	<b>(2,500)</b>
<b>Fund balance appropriated</b>	<b>72,052</b>	<b>168,289</b>	<b>-</b>	<b>168,289</b>
<b>Net change in fund balance</b>	<b>\$ -</b>	<b>\$ -</b>	<b>181,825</b>	<b>\$ 181,825</b>
Fund balance, beginning			1,275,402	
Fund balance, ending			<u>\$ 1,457,227</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, 2014**

	Major	Non-Major	Total
	Enterprise Fund	Enterprise Fund	
	Water and Sewer Fund	Stormwater Fund	
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	756,643	\$ 71,833	\$ 828,476
Accounts receivable (net)	152,216	1,849	154,065
Prepaid items	2,187	-	2,187
Due from other funds	-	-	-
Total current assets	911,046	73,682	984,728
Noncurrent assets:			
Capital assets:			
Land and construction in progress	1,040	-	1,040
Other capital assets, net of depreciation	4,347,542	-	4,347,542
Capital assets	4,348,582	-	4,348,582
Total noncurrent assets	4,348,582	-	4,348,582
Total assets	5,259,628	73,682	5,333,310
<b>LIABILITIES</b>			
Current liabilities:			
Accounts payable and accrued liabilities	99,571	389	99,960
Customer deposits	42,576	-	42,576
Compensated absences - current	6,770	-	6,770
Bond Anticipation Notes - current	12,000	-	12,000
Total current liabilities	160,917	389	161,306
Noncurrent liabilities:			
Other non-current liabilities:			
Other postemployment benefits	57,184	-	57,184
Compensated absences	8,975	-	8,975
Revenue Bonds - noncurrent	762,000	-	762,000
Total noncurrent liabilities	828,159	-	828,159
Total liabilities	989,076	389	989,465
<b>NET POSITION</b>			
Net Investment in capital assets	3,574,582	-	3,574,582
Restricted - USDA	33,285	-	33,285
Unrestricted	662,685	73,293	735,978
Total net position	\$ 4,270,552	\$ 73,293	\$ 4,343,845

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, 2014**

	Major Enterprise Fund	Non-Major Enterprise Fund	Total
	Water and Sewer Fund	Stormwater Fund	
<b>OPERATING REVENUES</b>			
Charges for services	\$ 1,768,719	\$ -	\$ 1,768,719
Taps and connection fees	3,175	-	3,175
Other operating revenues	24,720	22,757	47,477
<b>Total operating revenues</b>	<b>1,796,614</b>	<b>22,757</b>	<b>1,819,371</b>
<b>OPERATING EXPENSES</b>			
Administration	120,013	-	120,013
Water distribution	685,283	-	685,283
Sewer collection	867,325	-	867,325
Stormwater	-	14,162	14,162
Depreciation	171,992	-	171,992
<b>Total operating expenses</b>	<b>1,844,613</b>	<b>14,162</b>	<b>1,858,775</b>
<b>Operating income (loss)</b>	<b>(47,999)</b>	<b>8,595</b>	<b>(39,404)</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>			
Investment earnings	36	-	36
Interest and other charges	(21,285)	-	(21,285)
<b>Total nonoperating revenues (expenses)</b>	<b>(21,249)</b>	<b>-</b>	<b>(21,249)</b>
<b>Income (loss) before contributions and transfers</b>	<b>(69,248)</b>	<b>8,595</b>	<b>(60,653)</b>
Transfers from other funds	-	-	-
Transfers to other funds	-	-	-
<b>Change in Net Position</b>	<b>(69,248)</b>	<b>8,595</b>	<b>(60,653)</b>
<b>Total Net Position, beginning</b>	<b>4,339,800</b>	<b>64,698</b>	<b>4,404,498</b>
<b>Total Net Position, ending</b>	<b>\$ 4,270,552</b>	<b>\$ 73,293</b>	<b>\$ 4,343,845</b>

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, 2014**

	Major		Total
	Enterprise Fund	Enterprise Fund	
	Water and Sewer Fund	Stormwater Fund	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash received from customers	\$ 1,771,894	\$ 22,603	\$ 1,794,497
Cash paid for goods and services	(1,476,898)	(14,605)	(1,491,503)
Cash paid to or on behalf of employees for services	(185,934)	-	(185,934)
Customer deposits (net)	1,666	-	1,666
Other operating revenues	24,720	-	24,720
Net cash provided (used) by operating activities	<u>135,448</u>	<u>7,998</u>	<u>143,446</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Decrease in Due from other funds	-	-	-
Transfers from other funds	-	-	-
Total cash flows from noncapital financing activities	<u>-</u>	<u>-</u>	<u>-</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Acquisition and construction of capital assets	(29,131)	-	(29,131)
Principal paid on installment purchase obligations	-	-	-
Interest paid on long-term debt	(21,285)	-	(21,285)
Net cash provided (used) by capital and related financing activities	<u>(50,416)</u>	<u>-</u>	<u>(50,416)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest and dividends	36	-	36
Net increase (decrease) in cash and cash equivalents	85,068	7,998	93,066
Balances, beginning	671,575	63,835	735,410
Balances, ending	<u>\$ 756,643</u>	<u>\$ 71,833</u>	<u>\$ 828,476</u>
Reconciliation of operating income to net cash provided by operating activities			
Operating Income	\$ (47,999)	\$ 8,595	\$ (39,404)
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	171,992	-	171,992
Change in assets and liabilities:			
(Increase) decrease in accounts receivable	1,307	(154)	1,153
Increase (decrease) in allowance for doubtful accounts	(1,770)	-	(1,770)
Increase (decrease) in accounts payable and accrued liabilities	(6,961)	(443)	(7,404)
Increase in prepaid items	(246)	-	(246)
Increase in customer deposits	1,666	-	1,666
Increase in accrued interest	-	-	-
Increase in accrued vacation payable	2,545	-	2,545
Increase in OPEB liability	14,914	-	14,914
Total adjustments	<u>183,447</u>	<u>(597)</u>	<u>182,850</u>
Net cash provided by operating activities	<u>\$ 135,448</u>	<u>\$ 7,998</u>	<u>\$ 143,446</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, 2014**

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**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 fund:

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

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.

The Town reports the following non-major enterprise fund:

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

**Town of Haw River, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2014**

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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 for property other than motor vehicles are materially past due and are not considered to be an available resource to finance the operations of the current year. Also, as of September 1, 2013, State law altered the procedures for the assessment and collection of property taxes on registered motor vehicles in North Carolina. Effective with this change in the law, the State of North Carolina is responsible for billing and collecting the property taxes on registered motor vehicles on behalf of all municipalities and special tax districts. Property taxes are due when vehicles are registered. The billed taxes are applicable to the fiscal year in which they are received. Uncollected taxes that were billed in periods prior to September 1, 2013 and for limited registration plates are shown as a receivable in these financial statements are offset by deferred inflows of resources.

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

**Town of Haw River, North Carolina**  
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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 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.

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4. Ad Valorem Taxes Receivable

In accordance with State law [G.S. 105-347 and G.S. 159-13(a)], the Town levies ad valorem taxes on property other than motor vehicles on July 1<sup>st</sup>, the beginning of the fiscal year. The taxes are due on September 1<sup>st</sup> (lien date); however, interest does not accrue until the following January 6<sup>th</sup>. These taxes are based on the assessed values as of January 1, 2013. As allowed by State law, the Town has established a schedule of discounts that apply to taxes that are paid prior to the due date. In the Town's General Fund, ad valorem tax revenues are reported net of such discounts.

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 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

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

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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.

**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.

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

Restricted for General Government – Hold harmless monies received by the Town restricted by the Board for capital outlay purposes in the future.

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 as well as fire department capital reserve monies from a percentage of the fire tax.

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.

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

### **A. Excess of Expenditures over Appropriations**

For the fiscal year ended June 30, 2014, the expenditures made by the Town of Haw River’s Water and Sewer Fund exceeded the authorized appropriations made by the water distribution department by \$7,848. This over-expenditure is a result of accrued liabilities and due to higher volume of water during the year. Management and the Board will more closely review the budget reports to ensure compliance in future years.

## **III. 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

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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, 2014, the Town's deposits had a carrying amount of \$348,616 and a bank balance of \$467,996. 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, 2014, the Town's petty cash fund totaled \$300.

2. Investments

At June 30, 2014, the Town's investment balances were as follows:

<b>Investment Type</b>	<b>Fair Value</b>	<b>Maturity</b>	<b>Rating</b>
Certificate of Deposit – Vantage South Bank	\$ 100,000	February 1, 2015	N/A
Certificate of Deposit – Vantage South Bank	100,000	February 28, 2015	N/A
NC Capital Management Trust – Cash Portfolio	<u>1,480,657</u>	N/A	AAAm
Total:	<u>\$ 1,680,657</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, 2014.

3. Receivables – Allowances for Doubtful Accounts

The amounts presented in the Balance Sheet and Statement of Net Position for the year ended June 30, 2014 are net of the following allowances for doubtful accounts:

General Fund:	
Taxes receivable	\$ 19,493
Fire Districts levy receivable	<u>13,758</u>
Total	33,251
Enterprise Funds:	
Accounts receivable	<u>1,965</u>
Total	<u>\$ 35,216</u>



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4. Capital Assets

Capital asset activity for the Primary Government for the year ended June 30, 2014, 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	1,466,599	-	13,867	1,452,732
Infrastructure	1,301,968	-	-	1,301,968
Vehicles	720,709	-	-	720,709
Total capital assets being depreciated	<u>4,267,035</u>	<u>-</u>	<u>13,867</u>	<u>4,253,168</u>
Less accumulated depreciation for:				
Buildings and improvements	546,876	21,112	-	567,988
Equipment, furniture and fixtures	1,282,225	36,259	13,867	1,304,617
Infrastructure	604,948	29,901	-	634,849
Vehicles	336,069	33,950	-	370,019
Total accumulated depreciation	<u>2,770,118</u>	<u>\$ 121,222</u>	<u>\$ 13,867</u>	<u>2,877,473</u>
Total capital assets being depreciated, net	<u>1,496,917</u>			<u>1,375,695</u>
Governmental activity capital assets, net	<u>\$ 1,654,885</u>			<u>\$ 1,533,663</u>

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

General government	\$ 24,243
Public safety	59,943
Transportation	28,701
Recreation	3,623
Environmental protection	<u>4,712</u>
Total depreciation expense	<u>\$ 121,222</u>

Business-type activities:	Beginning Balances	Increases	Decreases	Ending Balances
<i>Water and Sewer Fund</i>				
Capital assets not being depreciated:				
Land	\$ 1,040	\$ -	\$ -	\$ 1,040
Construction in progress	-	-	-	-
Total capital assets not being depreciated	<u>1,040</u>	<u>-</u>	<u>-</u>	<u>1,040</u>
Capital assets being depreciated:				
Plant and distribution systems	8,285,697	29,131	-	8,314,828
Equipment and furniture	193,978	-	-	193,978
Vehicles	32,192	-	-	32,192
Total capital assets being depreciated	<u>8,511,867</u>	<u>29,131</u>	<u>-</u>	<u>8,540,998</u>

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Less accumulated depreciation for:				
Plant and distribution systems	3,813,521	167,703	-	3,981,224
Equipment and furniture	193,978	-	-	193,978
Vehicles	13,965	4,289	-	18,254
Total accumulated depreciation	4,021,464	\$ 171,992	\$ -	4,193,456
Total capital assets being depreciated, net	4,490,403			4,347,542
Business-type activities capital assets, net	\$ 4,491,443			\$ 4,348,582

**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 7.07% and 7.28%, 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, 2014, 2013, and 2012 were \$62,013, \$56,033, and \$58,152, respectively. The contributions made by the Town equaled the required contributions for each year.

**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, 2013, 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	11

A separate report was not issued for the plan.

**Town of Haw River, North Carolina**  
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*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, 2013 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	\$ 27,838
Interest on net pension obligation	3,150
Adjustment to annual required contribution	<u>(5,133)</u>
Annual pension cost	25,855
Contributions made	<u>39,530</u>
Increase (decrease) in net pension obligation	(13,675)
Net pension obligation beginning of year	<u>63,003</u>
Net pension obligation end of year	<u>\$ 49,328</u>

Three Year Trend Information

For the Year Ended June 30	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
2012	21,255	104.67%	76,309
2013	26,224	150.74%	63,003
2014	25,855	152.89%	49,328

*4. Funded Status and Funding Progress*

As of December 31, 2013, the most recent actuarial valuation date, the plan was not funded. The actuarial accrued liability for benefits and unfunded actuarial accrued liability (UAAL) was \$308,093. The covered payroll (annual payroll of active employees covered by the plan) was \$315,357, and the ratio of the UAAL to the covered payroll was 97.70 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.

**Town of Haw River, North Carolina**  
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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, 2014 were \$16,131, which consisted of \$15,891 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, 2014 were \$27,245 which consisted of \$23,515 from the Town and \$3,730 from the employees.

d. Firefighter'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 Firefighter's and Rescue Squad Workers' Pension Fund (Fund), a cost-sharing multiple-employer defined benefit pension plan with a special funding situation administered by the State 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 Firefighter's and Rescue Squad Workers' Pension Fund is included in the Comprehensive Annual Financial Report (CAFR) for the State of North Carolina. The State's CAFR includes financial statements and required supplementary information for the Firefighter's and Rescue Squad Workers' Pension Fund. That report may be obtained by writing to the Office of the State Controller, 1410 Mail Service Center, Raleigh, North Carolina 27699-1410, or by calling (919) 981-5454.

*Funding Policy.* Plan members are required to contribute \$10 per month to the Fund. The State, a non-employer contributor, funds the plan through appropriations. The Town 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, 2014 were \$3,150. 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

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health benefits. For the fiscal year ended June 30, 2014, the Town made payments of \$50,884 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:

Years of Service <u>At Retirement</u>	Town <u>Contribution</u>
20 or more	100 %
15-19	93.75%
10-14	75%
5-9	43.75%

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

Years of Service <u>At Retirement</u>	Town <u>Contribution</u>
30 or more	100 %
25-29	93.75%
20-24	75%

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, 2013, the date of the latest actuarial valuation:

	General Employees	Law Enforcement Officers
Retirees and dependents receiving benefits	2	3
Active plan members	14	8
Total	16	11

*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 9.67% of annual covered payroll. For the current year, the Town contributed \$50,884 or 5.86% 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

**Town of Haw River, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2014**

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	\$ 96,927
Interest on net OPEB obligation	6,972
Adjustment to annual required contribution	<u>(6,660)</u>
Annual OPEB cost (expense)	96,939
Contributions made	<u>(50,884)</u>
Increase (decrease) in net OPEB obligation	46,055
Net OPEB obligation, beginning of year	<u>174,291</u>
Net OPEB obligation, end of year	<u>\$ 220,346</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, 2014 were as follows:

For Year Ended <u>June 30</u>	Annual <u>OPEB Cost</u>	Percentage of Annual <u>OPEB Cost Contributed</u>	Net OPEB <u>Obligation</u>
2014	\$ 96,939	52.5%	\$ 220,346
2013	\$ 77,448	74.8%	\$ 174,291
2012	\$ 77,448	46.4%	\$ 154,743

*Funded Status and Funding Progress.* As of December 31, 2013, 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 \$1,027,331. The covered payroll (annual payroll of active employees covered by the plan) was \$868,779, and the ratio of the UAAL to the covered payroll was 118.2 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 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, 2013 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 7.75 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, 2013, was 30 years.

**Town of Haw River, North Carolina  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2014**

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**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)	\$ -	\$ 8,741
Taxes receivable (General Fund)	25,839	-
Fire district levy receivable (General Fund)	20,638	-
Total	<u>\$ 46,477</u>	<u>\$ 8,741</u>

**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. The liability and property exposures are reinsured through commercial carriers for claims in excess of retentions as selected by the Board of Trustees each year. Stop loss insurance is purchased by the Board of Trustees to protect against large medical claims that exceed certain dollar cost levels. Specific information on the limits of reinsurance, excess and stop loss policies purchased by the Board of Trustees can be obtained by contacting the Risk Management Services Department of the NC League of Municipalities. The pools are audited annually by certified public accountants, and the audited financial statements are available to the Town upon request.

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.

**Town of Haw River, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2014**

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5. Claims, Judgments and Contingent Liabilities

At June 30, 2014, 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, 2014, including \$26,969 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	38,822	8,752
2016	40,433	7,141
2017	42,110	5,464
2018	43,858	3,716
2019	<u>46,316</u>	<u>1,896</u>
Total	<u>\$ 211,539</u>	<u>\$ 26,969</u>

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, 2014, including \$1,141 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	17,617	758
2016	<u>17,992</u>	<u>383</u>
Total	<u>\$ 35,609</u>	<u>\$ 1,141</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, 2014, including \$196 of interest, are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2015	<u>7,856</u>	<u>196</u>
Total	<u>\$ 7,856</u>	<u>\$ 196</u>



**Town of Haw River, North Carolina**  
**Notes to the Financial Statements**  
**For the Fiscal Year Ended June 30, 2014**

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>
2015	12,000	21,285
2016	12,000	20,955
2017	12,000	20,625
2018	13,000	20,295
2019	13,000	19,938
2020-2024	72,000	94,023
2025-thereafter	<u>653,000</u>	<u>286,385</u>
Total	<u>\$ 774,000</u>	<u>\$ 483,506</u>

The Town of Haw River is in compliance with the covenants as to rates, fees, rentals and charges in the Section 3.1 Bond Order, authorizing the issuance of the Water and Sewer Revenue bonds, series 2012. Section 3.1 of the Bond Order requires the debt service coverage ratio to be no less than 110%. The debt service coverage ratio calculation for the year ended June 30, 2014, is as follows:

Operating revenues	\$ 1,796,614
Operating expenses*	<u>1,672,621</u>
Operating income	123,993
Nonoperating revenues (expenses)**	<u>36</u>
Income available for debt service	124,029
Debt service, principal and interest paid (Revenue bond only)	\$ <u>21,285</u>
Debt service coverage ratio	583%

\*Per rate covenants, this does not include the depreciation expense of \$171,992.

\*\*Per rate covenants, this does not include revenue bond interest paid of \$21,285.

b. Changes in Long-Term Liabilities

	<u>Beginning</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending</u>	<u>Current</u>
	<u>Balance</u>			<u>Balance</u>	<u>Portion</u>
					<u>of Balance</u>
<b>Governmental activities:</b>					
Installation purchases	\$ 340,250	\$ -	\$ 85,247	\$ 255,004	\$ 64,295
Compensated absences	72,603	20,233	-	92,836	69,628
Net pension obligation	63,003	-	13,675	49,328	-
Other postemployment benefits	132,021	31,141	-	163,162	-
Governmental activity long-term liabilities	<u>\$ 607,877</u>	<u>\$ 51,374</u>	<u>\$ 98,922</u>	<u>\$ 560,330</u>	<u>\$ 133,923</u>
<b>Business-type activities:</b>					
Revenue Bonds	\$ 774,000	\$ -	\$ -	\$ 774,000	\$ 12,000
Compensated absences	13,201	2,545	-	15,746	6,770
Other postemployment benefits	42,270	14,913	-	57,183	-
Business-type activity long-term liabilities	<u>\$ 829,471</u>	<u>\$ 17,458</u>	<u>\$ -</u>	<u>\$ 846,929</u>	<u>\$ 18,770</u>

**Town of Haw River, North Carolina  
Notes to the Financial Statements  
For the Fiscal Year Ended June 30, 2014**

At June 30, 2014, the Town of Haw River had bonds authorized but unissued of \$774,000 and a legal debt margin of \$10,935,619.

C. Net Investment in Capital Assets

	<u>Governmental</u>	<u>Business-type</u>
Capital assets	\$ 1,533,663	\$ 4,348,582
Less: Long-term debt	255,004	774,000
Add: Unexpended debt proceeds	-	-
Net investment in capital assets	<u>\$ 1,278,659</u>	<u>\$ 3,574,582</u>

D. Fund Balance

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

<b>Total fund balance-General Fund</b>	<b>\$1,457,227</b>
<b>Less:</b>	
<b>Stabilization by State Statute</b>	277,207
<b>General Government</b>	46,312
<b>Streets-Powell Bill</b>	370,007
<b>Public Safety</b>	146,881
<b>Parks and Recreation</b>	59,317
<b>Appropriated Fund Balance in 2015 budget</b>	72,000
<b>Remaining Fund Balance</b>	485,503

**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, 2014.

**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, 2014 and September 30, 2014 which is the date the financial statements were available to be issued, for possible recognitions or disclosure in the financial statements.

## **Required Supplementary Financial Data**

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

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- 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 Accrued		Unfunded AAL (UAAL) (b - a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b - a)/c)
	Actuarial Value of Assets (a)	Liability (AAL) Projected Unit Credit (b)				
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%
12/31/13	-	\$308,093	\$308,093	0%	\$315,357	97.7%

**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
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%
2014	\$27,838	142.0%

**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	12/31/2013
Actuarial cost method	Projected unit credit
Amortization method	Level dollar closed
Remaining amortization period	17 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)			
12/31/2013	-	\$ 1,027,331	\$ 1,027,331	0%	\$ 868,779	118.2%
12/31/2010	-	\$ 1,036,951	\$ 1,036,951	0%	\$ 852,065	121.7%
12/31/2009	-	\$ 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
2014	\$96,627	52.7%
2013	\$77,336	74.9%
2012	\$77,336	46.4%

**Notes to the Required Schedules:**

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

Valuation date	12/31/2013
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	7.75% - 5.00%
Year of Ultimate trend rate	2019
*Includes inflation at	3.00%

## **Individual Fund Schedules**



## General Fund

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

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**Town of 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, 2014**

	Original Budget	Budget	Actual	Variance Positive (Negative)
<b>Revenues:</b>				
Ad valorem taxes:				
Current year	\$ 643,500	\$ 643,500	\$ 692,256	
Prior years	25,000	25,000	28,306	
Penalties and interest	8,000	8,000	10,822	
Total	\$ 676,500	\$ 676,500	731,384	\$ 54,884
Other taxes and licenses:				
Motor vehicle licenses	65	65	90	
Privilege licenses	15,100	15,100	19,864	
Total	15,165	15,165	19,954	4,789
Unrestricted intergovernmental:				
Local option sales taxes	351,000	351,000	383,431	
Hold harmless distribution	70,000	70,000	116,498	
Utility franchise tax	140,000	140,000	142,141	
Franchise fees	2,200	2,200	-	
Beer and wine tax	10,000	10,000	10,100	
Total	573,200	573,200	652,170	78,970
Restricted intergovernmental:				
Powell Bill allocation	61,500	61,500	62,346	
Alamance County fire district tax	275,250	275,250	290,094	
Federal grants	131,756	131,756	78,351	
Equitable share of Federally forfeited property	3,500	3,500	-	
Unauthorized substance tax	1,250	1,250	971	
Solid waste disposal tax	1,450	1,450	1,298	
Total	474,706	474,706	433,060	(41,646)
Sales and services:				
Rentals	10,400	10,400	13,425	
Recreation department fees	13,365	13,365	9,988	
Refuse collection fees	99,100	99,100	98,784	
Total	122,865	122,865	122,197	(668)

**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, 2014**

	Original Budget	Budget	Actual	Variance Positive (Negative)
Investment earnings	1,750	1,750	1,019	(731)
Miscellaneous:				
Police Department	2,500	2,500	2,326	
Park donations	1,500	1,500	500	
Recreation Grant				
Recycling Grant	-	-	-	
Fire department	500	500	2,120	
Other revenues	4,500	4,500	3,211	
Total	9,000	9,000	8,157	(843)
Total revenues	1,873,186	1,873,186	1,967,941	94,755
Expenditures:				
General government:				
Governing body:				
Salaries and employee benefits	10,350	10,350	10,335	
Other operating expenditures	5,400	5,400	3,889	
Total	15,750	15,750	14,224	1,526
Administration:				
Salaries and employee benefits	104,899	108,493	108,731	
Maintenance	3,000	3,000	1,305	
Other operating expenditures	68,950	68,950	62,999	
Capital outlay	5,000	5,000	-	
Total	181,849	185,443	173,035	12,408
Public buildings:				
Other operating expenditures	36,500	39,500	36,366	
Capital improvements	3,000	-	-	
Total	39,500	39,500	36,366	3,134
Non-departmental:				
Insurance and bonds	63,000	63,000	59,264	3,736

**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, 2014**

	Original Budget	Budget	Actual	Variance Positive (Negative)
Special appropriations:				
Elections	2,000	2,000	1,402	598
Cemetery association	1,000	2,000	2,000	-
Animal shelter	11,494	11,494	11,494	-
Total	14,494	15,494	14,896	598
Total general government	314,593	319,187	297,785	21,402
Public safety:				
Police:				
Salaries and employee benefits	511,183	520,657	518,370	
Vehicle maintenance	30,000	30,615	25,664	
Other operating expenditures	41,350	56,540	52,289	
Capital outlay	4,000	1,150	-	
Total	586,533	608,962	596,323	12,639
Fire:				
Salaries and employee benefits	254,514	263,421	258,117	
Vehicle maintenance	24,000	27,000	21,510	
Other operating expenditures	46,879	46,879	17,610	
Capital outlay	2,000	6,180	8,383	
Total	327,393	343,480	305,620	37,860
Total public safety	913,926	952,442	901,943	50,499
Transportation:				
Streets and highways:				
Salaries and employee benefits	107,928	105,423	104,391	
Vehicle maintenance	7,250	8,250	6,961	
Street Lights	22,000	22,000	21,325	
Contracted services	72,500	72,500	46,368	
Other operating expenditures	24,875	27,395	18,649	
Capital outlay	125,000	125,000	4,616	
Total transportation	359,553	360,568	202,310	158,258

**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, 2014**

	Original Budget	Budget	Actual	Variance Positive (Negative)
Environmental protection:				
Solid waste:				
Contracted services	102,700	152,700	140,093	
Total environmental protection	102,700	152,700	140,093	12,607
Culture and recreation:				
Parks and recreation:				
Salaries and employee benefits	107,851	109,763	106,459	
Vehicle maintenance	4,300	4,300	3,103	
Other operating expenditures	47,306	47,306	36,741	
Capital outlay	-	-	-	
Total culture and recreation	159,457	161,369	146,303	15,066
Debt Service:				
Principal			85,247	
Interest			12,435	
Total debt service	97,509	97,709	97,682	27
Total expenditures	1,947,738	2,043,975	1,786,116	257,859
Revenues over (under) expenditures	(74,552)	(170,789)	181,825	352,614
Other financing sources (uses):				
Transfers to/from other funds:				
Grant Project Fund	-	-	-	-
Enterprise Fund	-	-	-	-
Sales of capital assets	2,500	2,500	-	(2,500)
Total	2,500	2,500	-	(2,500)
Fund balance appropriated	72,052	168,289	-	(168,289)
Net change in fund balance	\$ -	\$ -	181,825	\$ 181,825
Fund balances, beginning			1,275,402	
Fund balances, ending			\$ 1,457,227	

## Enterprise Funds

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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.

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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.

**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, 2014**

	Budget	Actual	Variance Positive (Negative)
<b>Operating Revenues:</b>			
Charges for services:			
Water sales	\$ 895,000	\$ 878,299	\$ (16,701)
Sewer charges	785,000	889,220	104,220
Surcharges	1,200	1,200	-
Total	1,681,200	1,768,719	87,519
Taps and connection fees	10,000	3,175	(6,825)
Other operating revenues	26,250	24,720	(1,530)
Total operating revenues	1,717,450	1,796,614	79,164
<b>Nonoperating revenues:</b>			
Interest earnings	50	36	(14)
Total revenues	1,717,500	1,796,650	79,150
<b>Expenditures:</b>			
Water and sewer administration:			
Salaries and employee benefits	99,274	98,826	448
Supplies and materials	1,500	1,222	278
Contracted services	4,500	3,318	1,182
Other operating expenses	23,404	11,310	12,094
Capital outlay	3,500	3,205	295
Total water and sewer administration	132,178	117,881	14,297
Water distribution:			
Salaries and employee benefits	57,435	57,341	94
Supplies	11,400	10,324	1,076
Maintenance	2,200	1,681	519
Water purchased for resale	567,970	577,764	(9,794)
Other operating expenditures	29,125	28,868	257
Capital outlay	-	-	-
Total water distribution	668,130	675,978	(7,848)

**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, 2014**

	Budget	Actual	Variance Positive (Negative)
Sewer collection system:			
Salaries and employee benefits	107,910	107,157	753
Supplies	11,800	10,556	1,244
Maintenance	9,580	5,404	4,176
Purchase of sewer service	681,947	670,209	11,738
Other operating expenditures	72,100	67,978	4,122
Capital outlay	29,200	29,131	69
Total sewer collection system	912,537	890,435	22,102
Debt Service:			
Principal and interest	21,285	21,285	-
Total expenditures	1,734,130	1,705,579	28,551
Revenues over (under) expenditures	(16,630)	91,071	107,701
Other financing sources (uses):			
Appropriated Fund Balance	16,630	-	16,630
Revenues and other sources over expenditures and other uses:	\$ -	\$ 91,071	
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>			
Revenues and other sources over expenditures and other uses		91,071	
Reconciling Items:			
Principal retirement		-	
Capital Outlay		29,131	
Increase in bond interest accrued		-	
Increase in accrued vacation pay		(2,545)	
Increase in accrued OPEB liability		(14,913)	
Depreciation		(171,992)	
Total reconciling items		(160,319)	
Change in Net Position		\$ (69,248)	



**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, 2014**

	Budget	Actual	Variance Positive (Negative)
Operating revenues			
Stormwater fees	\$ 22,000	\$ 22,757	\$ 757
Total operating revenues	22,000	22,757	757
Total revenues	22,000	22,757	757
Expenditures:			
Stormwater expenditures	22,000	14,162	7,838
Total expenditures	22,000	14,162	7,838
Revenues over (under) expenditures	-	8,595	8,595
Other financing sources:			
Transfers from other funds:			
General Fund	-	-	-
Revenues over expenditures and other financing sources	\$ -	8,595	\$ 8,595
<b>Reconciliation from budgetary basis (modified accrual) to full accrual:</b>			
Reconciling Items:		-	
Change in net position		\$ 8,595	

## Other Schedules

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This section includes additional information on property taxes.

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- 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, 2014**

Fiscal Year	Uncollected Balance June 30, 2013	Additions	Collections And Credits	Uncollected Balance June 30, 2014
2013-2014	\$ -	\$ 718,417	\$ 694,955	\$ 23,462
2012-2013	32,204		23,909	8,295
2011-2012	7,100		4,030	3,070
2010-2011	2,184		577	1,607
2009-2010	1,436		46	1,390
2008-2009	1,910		26	1,884
2007-2008	1,558		-	1,558
2006-2007	1,458		16	1,442
2005-2006	1,602		226	1,376
2004-2005	1,326		78	1,248
2003-2004	930		930	-
<b>Total</b>	<b>\$ 51,708</b>	<b>\$ 718,417</b>	<b>\$ 724,793</b>	<b>45,332</b>
Less allowance for uncollectible ad valorem taxes receivable				<u>19,493</u>
Ad valorem taxes receivable - net				<u><u>\$ 25,839</u></u>
Reconciliation with revenues:				
Ad valorem taxes - General Fund			\$ 731,384	
Reconciling items:				
Interest collected			(10,822)	
Discounts allowed			3,301	
Taxes written off			930	
Subtotal			<u>(6,591)</u>	
Total collections and credits			<u><u>\$ 724,793</u></u>	

**Town of Haw River, North Carolina**  
**Analysis of Current Tax Levy**  
**Town Wide Levy**  
**For the Fiscal Year Ended June 30, 2014**

	<b>Town - Wide</b>		<b>Total Levy</b>		
	<b>Property</b>	<b>Total</b>	<b>Property</b>	<b>Registered</b>	
	<b>Valuation</b>	<b>Rate</b>	<b>Levy</b>	<b>Motor</b>	
			<b>Motor</b>	<b>Motor</b>	
			<b>Vehicles</b>	<b>Vehicles</b>	
Original levy:					
Property taxed at current	\$ 149,732,785	0.48	\$ 718,717	\$ 632,631	\$ 86,086
Penalties	-		540	540	
Total	<u>149,732,785</u>		<u>719,257</u>	<u>633,171</u>	<u>86,086</u>
Discoveries:					
Current year taxes	234,792	0.48	1,127	1,067	60
Penalties			-	-	-
Abatements	<u>(409,792)</u>		<u>(1,967)</u>	-	<u>(1,967)</u>
Total Property Valuation	<u>\$ 149,557,785</u>		<u>718,417</u>	<u>634,238</u>	<u>84,179</u>
Uncollected taxes at June 30, 2014			<u>23,462</u>	<u>19,287</u>	<u>4,175</u>
Current year's taxes collected			<u>\$ 694,955</u>	<u>\$ 614,951</u>	<u>\$ 80,004</u>
Current levy collection percentage			96.73%	96.96%	95.04%

## **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  
Curtis G. Van Horne, CPA  
Cathy E. McKinley, CPA  
Tara H. Roberson, CPA  
K. Jamison Crampton, CPA

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## 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, 2014, 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 September 30, 2014.

#### 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. [14-1]

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town of Haw River'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  
September 30, 2014

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

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**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**

**14-1** 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, 2014**

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**Section II - Financial Statement Findings**

**Finding: 14-1**

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 segregation. The Town Manager plans to cross-train employees in order to better segregate some of these duties.

Proposed Completion Date: Immediately.